

PepsiCo, Inc. 1992

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The flexible corporation...

...it's a beautiful sight to see.



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Financial Highlights

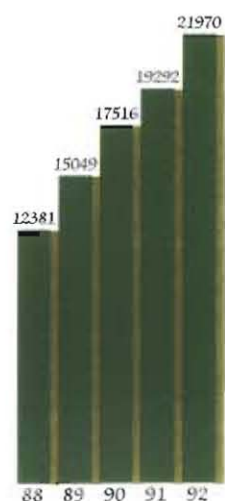
	Fifty-two Weeks Ended		
	December 26, 1992	December 28, 1991	Percent Change
(dollars in millions except per share amounts)			
Net sales	\$21,970	19,292	+ 14
Beverages	\$ 7,606	6,915	+ 10
Snack Foods	\$ 6,132	5,250	+ 17
Restaurants	\$ 8,232	7,127	+ 16
Segment operating profits	\$ 2,502	2,196	+ 14*
Beverages	\$ 799	863	- 7*
Snack Foods	\$ 985	757	+ 30*
Restaurants	\$ 719	576	+ 25*
Income before cumulative effect of accounting changes	\$ 1,302	1,080	+ 21
Per Share	\$ 1.61	1.35	+ 19*
Cumulative effect of accounting changes	\$ (927)	—	—
Per Share	\$ (1.15)	—	—
Net income	\$ 374	1,080	- 65*
Per Share	\$ 0.46	1.35	- 66*
Cash dividends declared — Per Share	\$ 0.51	0.46	+ 11
Net cash provided by continuing operations	\$ 2,712	2,430	+ 12
Purchases of property, plant and equipment for cash	\$ 1,550	1,458	+ 6
Cash dividends paid	\$ 396	343	+ 15
Acquisitions and investments in affiliates for cash	\$ 1,210	641	
Return on average shareholders' equity	% 23.9	20.7	

*These comparisons are affected by unusual items, including restructuring charges in both 1992 and 1991 and the impact on 1992 results of adopting new accounting rules for retiree health benefits and income taxes. See "Business Segments" on page 28 for detail of unusual items.

Return on average shareholders' equity was calculated using income before cumulative effect of accounting changes.

Net Sales

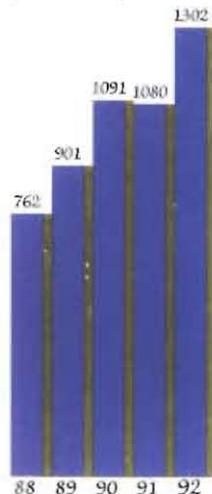
(\$ in Millions)



Net sales have grown at a compounded annual rate of 14.8% over the past five years.

Income From Continuing Operations*

(\$ in Millions)

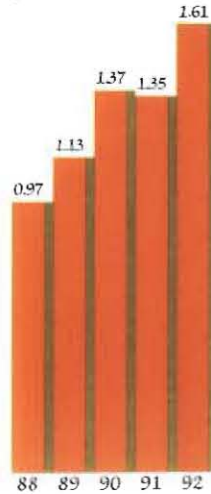


Income from continuing operations* has grown at a compounded annual rate of 16.6% over the past five years.

* Before cumulative effect of accounting changes in 1992.

Income Per Share From Continuing Operations*

(in Dollars)

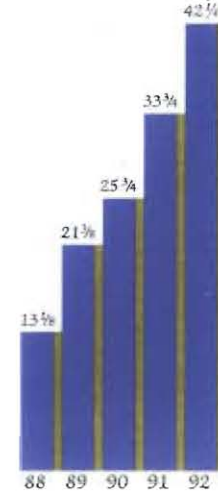


Income per share from continuing operations* has grown at a compounded annual rate of 15.9% over the past five years.

* Before cumulative effect of accounting changes in 1992.

Year-End Market Price Of Stock

(in Dollars)



The market price of PepsiCo Capital Stock has grown at a compounded annual rate of 30.3% over the past five years.

Dear Friends:



When a big, successful corporation like PepsiCo is really humming, we respond to consumers like a great dancer reacts to music.

We're alert to each note. Our steps are fluid and powerful. We might not be as pretty as "Swan Lake," but to me we have a beauty all our own.

Unfortunately, it isn't always that way. Success has a tendency to slow you down and make you timid. Then, if the marketplace suddenly changes, you might find yourself dancing to yesterday's hit tune.

That's why flexibility is such a central part of PepsiCo's management philosophy. We're not big on layers of management — too slow. We resist centralization — too confining. Local managers have a remarkable amount of authority and power — because they're the ones closest to our customers.

That vision, at the core of PepsiCo, has generated outstanding results for 27 years. Earnings have grown an average 15% a year and our performance has actually accelerated as we've grown bigger.

This year's annual report puts PepsiCo's "flexible" management philosophy at center stage, because it's really what keeps us on our toes. More later, but first a review of 1992.

1992 in Review

We had an excellent year. Sales and ongoing operating profits climbed sharply. But because we adopted some required noncash accounting changes and took some one-time restructuring charges, the reported earnings disguise some great results.

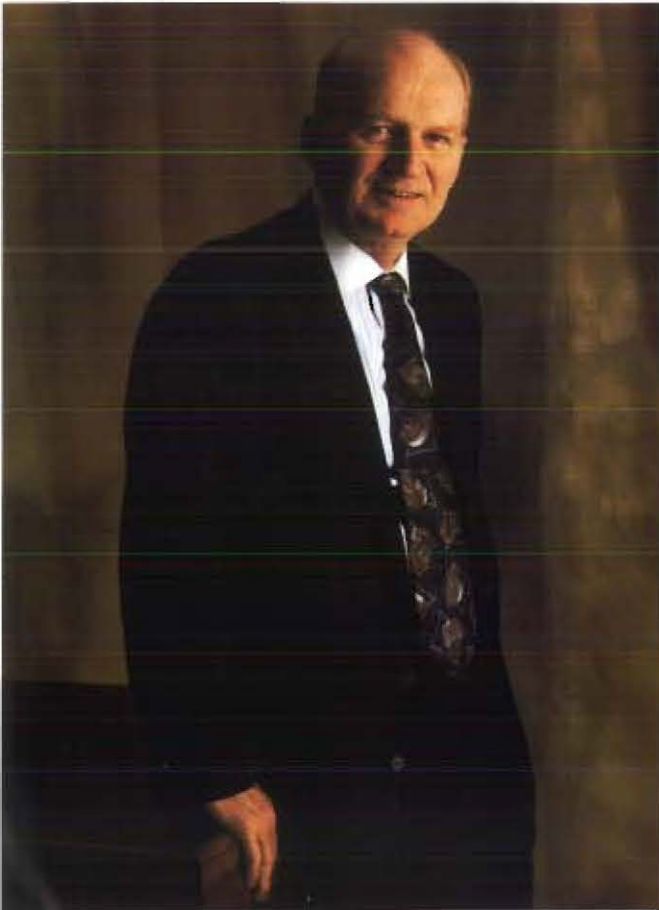
Some highlights:

- Excluding these unusual items, net income rose 21% to \$1.4 billion and earnings per share increased 20% to \$1.80.
- Sales reached \$22 billion, an increase of 14%.
- Dividends per share increased 11% to \$0.51, marking our 21st consecutive year of dividend growth.
- The price of a share of PepsiCo stock increased 25%, far exceeding the S&P Industrials' growth of 3%.
- All our lines of business achieved double-digit sales growth, with beverages up 10%, snack foods up 17% and restaurants up 16%.
- All our lines of business achieved strong ongoing profit growth, with beverages up 12%, snack foods up 19% and restaurants up 19%.
- Cash from operations increased 12% to a record \$2.7 billion.

Most important, during 1992 we continued to reshape our core businesses, dancing to the ever-changing tune of the marketplace. This reshaping gives us a jump on the future, which is, of course, the whole point of the "flexible corporation."

Further into this report, in the operating review section, we describe some of what we achieved in 1992 and our overall strategy. I also provide some perspective on future opportunity.

Here, I'd like to discuss the vision that motivates our actions.



Wayne Calloway
Chairman of the Board and Chief Executive Officer

The Philosophy of the Flexible Corporation

Maybe some corporations have succeeded over the years without changing much, but I doubt if they sell consumer products. The marketplace just won't let you stand still.

As a category leader, we have to dance as fast as we can, always developing new ideas to keep the consumer interested. At the same time, because we don't have a monopoly on imagination, we must respond to new ideas from our competitors. Who would have thought that clear soft drinks would become hot in the 1990s? I certainly didn't, but consumers did.

All of which says consumer products companies have to constantly fight rigidity and inertia, two natural by-products of size and success.

In our battle to beat the dark side of bigness, PepsiCo works to create a highly charged corporate atmosphere that's motivating and, at the same time, nonthreatening. You can't punish people for making mistakes and still expect them to be innovative. You've got to be supportive and encourage them to learn from mistakes.

At our best, we've been able to cultivate a kind of free flowing, flexible management style that can really get things done. The right controls remain, but without thousands of hidebound rules, battalions of supervisors and mountains of paperwork. Instead, we've tried to dispense large doses of personal responsibility to everyone in the organization.

When we get it right, we flourish. The atmosphere keeps us fast, flexible and consumer focused.

How are we doing? Well, we measure our "flexibility quotient" on three levels: Our skill at adjusting broad corporate strategy to meet new business conditions, the adaptability of our operating divisions to marketplace changes and, most important, the willingness of employees to really stretch to satisfy their customers.

Here are some examples:

Bending in New Directions

PepsiCo made an important and far-reaching adjustment in our corporate strategy in the mid-1980s. Up until then, almost all of our profits came from the U.S. — all very solid, safe and reassuring. But with one exception: potential for growth. Because only 5% of the world's population lives in the U.S., we thought it was just too small a base from which to grow.

We began to expand internationally. Since that time, we've invested over \$5 billion in our international businesses. Today, about 20% of our operating profits come from outside the U.S. and our investments give us a strong base for far greater growth in the coming decades.

For us, global expansion has been a big jump forward.

Adjusting the Operating Divisions

At the division operating level, we did much more.

As the 1980s began to fade, we noticed subtle shifts in the marketplace. There were distant rumblings. It wasn't that consumers wanted less quality. They just wanted to pay less money. They also wanted much more service and plenty of exciting new products.

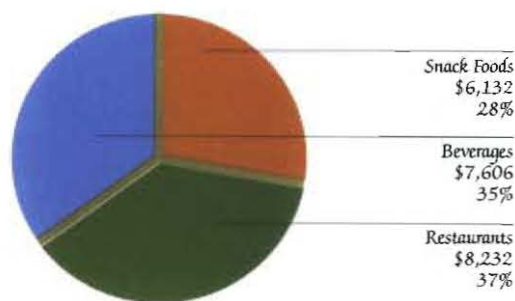
Though sales and profits were booming, we thought it time to take new steps. Every single operating division took it upon itself to confront this new challenge. In some cases, we needed to restructure. In all cases, basic assumptions were held up to the light, re-evaluated and redefined.

The most publicized example was Taco Bell. Back in 1988, Taco Bell had a significant market insight. They saw high prices driving consumers out of

Net Sales

Total: \$21,970

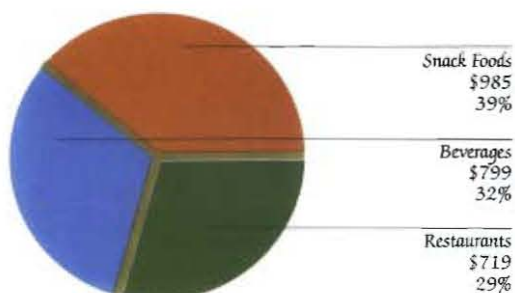
(\$ in Millions)



Segment Operating Profits

Total: \$2,502

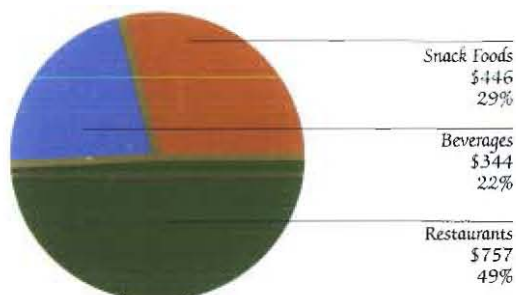
(\$ in Millions)



Segment Capital Spending

Total: \$1,547

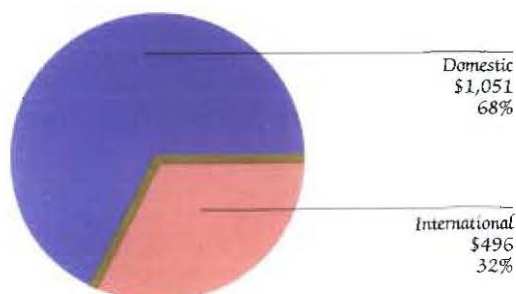
(\$ in Millions)



Segment Capital Spending

Total: \$1,547

(\$ in Millions)



quick service restaurants. A family of four could easily spend more than \$20 for lunch at some quick service restaurants. Hardly a good deal.

Taco Bell had a powerful one word answer: "value."²³ That meant radically reduced prices coupled with *higher* quality and *improved* service. To produce this triple play, Taco Bell totally reorganized its business.

Out went management layers; in came empowered restaurant managers. Taco Bell developed new technology to improve efficiency and slash costs. Performance standards were raised and operations streamlined.

The rest is history. Taco Bell changed the direction of the quick service restaurant business and doubled its system sales in just four years.

PepsiCo's other operating divisions danced to a similar tune.

At Frito-Lay and Pepsi-Cola we reorganized, targeting improved customer service, lower costs and increased operating efficiency. Frito-Lay totally revised the quality standards for its major products, improving taste, texture and appearance. Pepsi-Cola is turning itself "Right Side Up" to better serve customers.

KFC also made big changes. Faced with older restaurants, a narrow product line and an outdated reputation, KFC began to introduce new snackable items and other products. Service was improved and its image upgraded substantially.

Pizza Hut, starting in the mid-1980s, changed its business mission, going from a pizza restaurant operation to a "pizza distribution company." In the years since, they've "pizza-ized" much of America, expanding through delivery, carry-out and kiosks.

It's all called flexibility. Being able to move with grace, poise and confidence. And the results can be downright breathtaking. Over the past five years, each of our three lines of business more than doubled ongoing profits.

In sum, flexibility is not just a phrase or catchword. It's a true business building strategy that vastly increases competitiveness and makes us grow.

Flexibility on a Human Scale

Even though PepsiCo has demonstrated great flexibility in both market and organizational strategy, the real test is up close and personal, where it counts. The question: Do PepsiCo employees live the philosophy of flexibility in day-to-day business transactions? Here's our answer.

A while back, one of our KFC managers in Manhattan, Rudy Edghill, received a call from a customer complaining that his carry-out order was wrong. He ordered one thing—but arrived home with something else.

When the complaint came in, Rudy could have shrugged his shoulders and apologized. But that's not Rudy. He jumped into a taxi, raced through Manhattan streets and personally handed the correct order to the customer.

All corporations dream about this kind of initiative, but seldom get it. The reason: Too many controls and too much supervision stifle the people on the scene. They feel restricted, intimidated or bored. Fortunately for us, Rudy trusted his supervisor enough—and his company—to know he wouldn't be second-guessed.

To me, that's the very definition of a flexible corporation.

Incidentally, the KFC customer called back the next day and ordered 75 additional meals for a party that weekend. Flexibility has its rewards.

What It Takes

At PepsiCo, two strong beacons of light guide our day-to-day activities and encourage corporate flexibility. First is a very strong commitment to business results. Second is a high level of corporate and personal integrity.

Commitment to results is pretty obvious. You can't have much success without excellent individual performance by lots of people. But it's integrity that really makes the difference.

Independent actions, no matter how good, are only effective if they are choreographed into something powerful. That requires teamwork and selflessness, both unattainable without an exceptional degree of integrity throughout the organization.

We mean more than basic honesty, important as that is. We mean things such as candor and openness, even collegiality. We mean a deep-seated sense of confidence and a unity of purpose with your fellow workers, your boss, your division president — everyone. You trust in your colleagues, you trust in your company, and you trust in your collective ability to win the future.

That's how you get a flexible corporation. And, it's to that which PepsiCo aspires.

A Word of Appreciation



Of course, it's always people who get you where you want to go. In that regard, I want to thank our more than 370,000 employees, our franchisees, our business partners and our suppliers. I also want to thank the people who make it all possible — those customers and consumers who buy our products.

A special thanks goes to one of PepsiCo's most "flexible" long-time executives, Board Member Michael Jordan, who retired this year. He will be greatly missed.

Joining our Board is P. Roy Vagelos, M.D., chairman of the board, president and chief executive officer of Merck & Co., Inc. Pretty flexible himself, Roy's been a great help already and we welcome him with open arms.

On a very sad note, just prior to publication of this report, Bob Enright, our vice president of taxes, died in a tragic accident. Bob made an enormous contribution to PepsiCo. He was an extraordinary business leader and a great friend.

A final thought to our shareholders: Martha Graham once said that "nothing is more revealing than movement." True enough, even with corporations. We think movement — gracefully and artfully directed — will reveal growing prosperity for our investors. Last year was great and 1993 should be, too. One thing about flexibility: It allows us to bend over backwards on your behalf.

Wayne Calloway

Chairman of the Board and Chief Executive Officer

Return on Average
Shareholders' Equity*
(Percent)



*Based upon income from continuing operations (before cumulative effect of accounting changes in 1992).



A Well-Positioned Past



Back at the turn of the century, when soft drinks were a novelty, our consumers were satisfied with one soft drink — Pepsi-Cola — and one way of buying it — at the soda fountain.

As our consumers changed and wanted more variety, we added new channels of distribution, more packages and soft drinks: Diet Pepsi, Mountain Dew, Caffeine Free Pepsi, Caffeine Free Diet Pepsi, Slice and Mug brands.

Along the way, we expanded into international markets and began distributing 7UP and Mirinda brands outside the U.S.

Aided by lifestyle changes, better-tasting diet products and the "cola wars," the U.S. soft drink industry grew.

By 1991, soft drinks were a \$47 billion retail business in the U.S., but growth had begun to slow down. U.S. consumers were increasingly seeking variety in soft drinks. And a new category of beverages containing natural ingredients, without preservatives — a category that's become known as "new age" beverages — was emerging.

Outside the U.S., the situation was very different. Most people were just beginning to enjoy soft drinks, so providing convenient packaging and increasing distribution were key challenges.

An Adaptable Present

Faced with these challenges, we recognized we had to do several things to ensure continued growth. In the U.S., we had to improve customer focus while increasing efficiency, and we had to respond to the broadening "new age" beverage market.

Outside the U.S., we had to invest in the business to increase the kinds of packaging we offered and to accelerate distribution of our products.

Here are some highlights of what we did to pursue these strategies in 1992 and some of our achievements.

- U.S. sales were up 6%, and profits, excluding unusual items, were up 10%.
- International sales and profits, excluding unusual items, were up 22%.
- Worldwide retail sales of our beverage products reached nearly \$28 billion.
- International volume was up 7%, including double-digit growth in key markets such as Mexico, Saudi Arabia and Argentina. We also achieved double-digit growth in important emerging markets such as Pakistan, India, China and Poland.
- In the U.S., we're reshaping our organization to be "Right Side Up," so that the entire company is dedicated to meeting customer needs. The new organization eliminates

layers of supervision, creates more efficient work processes and enables us to serve customers better.

• In the U.S., the brand Diet Pepsi campaign — "You've Got The Right One Baby, Uh Huh!" — helped convince consumers to buy Diet Pepsi. Video Storyboards named Ray Charles, the campaign's star singer, the most persuasive celebrity spokesperson.

• Pepsi launched its "Gotta Have It" campaign for brand Pepsi. During the summer, 40 million "Gotta Have It" cards were distributed in the U.S. They provided cardholders with discounts on a range of consumer products.

• In the U.S., we introduced "Get Vertical," our new advertising for brand Mountain Dew. The first network television commercial for brand Diet Mountain Dew — "Do Diet Dew" — was aired. Combined Mountain Dew brands volume climbed 8%.

• We formed a partnership with Thomas J. Lipton Co., owner of the number one tea trademark in the U.S. In May, we introduced Lipton ready-to-drink teas in unsweetened and sweetened versions. In September, we launched two flavors: raspberry and peach.

• We entered an agreement to distribute single-serve bottles and cans of Ocean Spray products in the U.S. Ocean Spray is the number

Pepsi

Pepsi-Cola North America
Pepsi-Cola International

(\$ In Millions)	Domestic	International	Total
Sales	\$5,485	\$2,121	\$7,606
% Change	+ 6	+ 22	+ 10
Profits	\$ 687	\$ 112	\$ 799
% Change	- 8*	- 4*	- 7*

*These comparisons are affected by unusual items. See page 28.



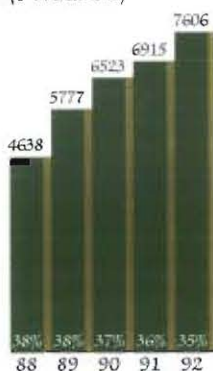
Introduced 1898. Estimated 1992
Retail Sales: \$17.0 Billion.



Introduced 1957. Estimated 1992
Retail Sales: \$1.0 Billion. (Sold outside the U.S.)

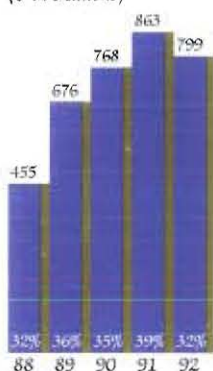
Beverages Net Sales

% Of Total Net Sales
(\$ in Millions)



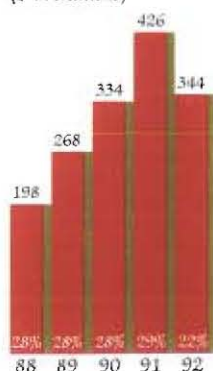
Beverages Operating Profits

% Of Total Segment
Operating Profits
(\$ in Millions)



Beverages Capital Spending

% Of Total Segment
Capital Spending
(\$ in Millions)



one non-refrigerated juice trademark in supermarkets.

- We expanded distribution of our All Sport isotonic sports drink to a quarter of the U.S.
- In the U.S., we increased sales of our H2Oh! sparkling water and began distributing Avalon, a still water.
- We introduced brand Crystal Pepsi, a unique-tasting clear cola with 100% natural flavors, no caffeine and no preservatives, in the U.S. Crystal Pepsi was named one of the best new products of 1992 by Time magazine.
- Outside the U.S. and Canada, we continued to build our reputation among the world's youth by featuring pop singing star Michael Jackson in our advertising and sponsoring his worldwide concert tour.
- We introduced Diet Pepsi in eight additional countries. Diet Pepsi is now available in about 75 countries and territories.
- We formed a joint venture with Eastman Chemical and two local companies in the Republic of Belarus, in the Commonwealth of Independent States, to produce plastic for beverage bottles. Light, convenient bottles make it easier to carry our products home.
- We introduced our plastic returnable bottle (PRB) in Austria, Finland and Sweden. This unbreakable, environmentally sound bottle is now in 12 countries and is generating double-digit volume gains almost everywhere it's been introduced.
- We entered a new vending partnership with PepsiCo Foods International and Mars Confections in Europe.
- We strengthened our international business via acquisitions totaling

about half a billion dollars during 1992. We entered into new joint ventures in Mexico, Japan, Australia and Cambodia.

- In early fiscal 1993, in Spain, we acquired Kas S.A., owner of several of that country's most popular fruit-flavored beverage brands. We also bought out our joint venture partner, Knorr Eforza S.A., which manufactures and distributes Pepsi-Cola and Kas products.
- We entered the Israeli market through a franchise agreement with Tempo Beer Industries, one of that country's largest beverage producers. We quickly captured more than 15% of the market.
- Early in 1993, we began testing a breakthrough product called Pepsi Max in two international markets. Our new brand has a unique blend of sweeteners (not yet approved for use in the U.S.) that delivers maximum cola taste in a no-sugar product. Developed exclusively for the international market, we expect Pepsi Max to appeal to consumers who want the full taste of regular cola without the sugar.

A Flexible Future... A Chairman's View:



As you can see, we're doing a lot that's new in pursuit of continuous, accelerated growth.

To me, we've effectively accomplished two big things over the past



Introduced 1964. Estimated 1992
Retail Sales: \$4.3 Billion.



Acquired 1964. Estimated 1992
Retail Sales: \$2.4 Billion.



Introduced 1984. Estimated 1992
Retail Sales: \$600 Million.

Beverages

couple of years: we've expanded the scope of our domestic beverage business and we've created a strong base for accelerated international growth. That gives me great confidence that we can continue to grow our beverage business for decades to come.

Think of it this way: There are some 5.3 billion thirsty people in the world. In the U.S., each person drinks about 183 gallons of liquids per year. If international consumers drank liquids at the U.S. rate, and we provided just 3% of their needs, our beverage system would be four times as big as it is today.

We're aiming a lot higher than that.

We expect our move in the U.S. from a traditional carbonated soft drink company to a total beverage company, along with international expansion, to provide strong growth in 1993.

Management's Analysis

(See "Management's Analysis — Overview" on page 26 and "Business Segments" on page 28.)

1992 vs. 1991

Worldwide net sales increased 10% to \$7.6 billion. Domestic sales rose \$314 million (6%) to \$5.5 billion. Excluding acquisitions of franchised bottling operations, domestic sales grew \$134 million (3%). This growth was driven by higher packaged product and fountain syrup pricing to retailers and higher concentrate pricing to franchised bottlers.

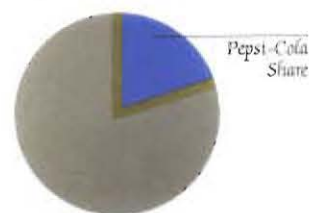
International sales rose \$377 million (22%) to \$2.1 billion. Excluding acquisitions of franchised bottling operations, principally in Canada, sales grew \$186 million (11%). This growth reflected concen-

trate price increases, led by Latin America, and the combined impact of volume gains and higher pricing in existing bottling operations. About \$30 million of the sales increase came from growth in concentrate shipments. The favorable translation impact of a weaker U.S. dollar contributed about \$25 million to the sales gain.

Beverage retail sales volume is measured in system bottler case sales (case sales), consisting of sales by company-owned and franchised bottlers to retailers of packaged products and fountain syrup. Domestic case sales increased 1% over 1991, driven by gains in the Mountain Dew brands and the new brand Crystal Pepsi and Lipton tea products, partially offset by a decline in brand Pepsi. Case sales of fountain syrup grew at a faster rate than packaged products. International case sales rose 7%, due to growth in almost all key markets, with a double-digit increase in Mexico, the largest market in case sales, partially offset by declines in Brazil and Canada. Emerging markets in Asia and Eastern Europe also aided case sales growth.

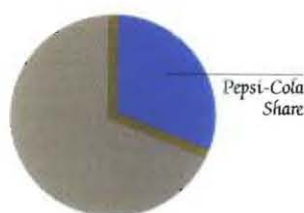
Worldwide operating profits declined 7% to \$799 million. Excluding \$167.4 million in 1992 unusual items, profits were up 12%. The unusual items were comprised of \$145 million in restructuring charges (\$115.4 million for domestic and \$29.6 million for international) and \$22.4 million in incremental expenses due to adopting new accounting rules. The domestic charge relates to an organizational restructuring designed to improve customer focus by realigning resources consistent with Pepsi-Cola's "Right Side Up" operating philosophy and to a redesign

U.S. Consumption in Pepsi-Cola's Beverage Categories
Pepsi-Cola Share



Pepsi-Cola's beverage categories, including soft drinks, tea, bottled water and juices, accounted for about 40% of all beverages consumed. Pepsi-Cola products were about 20% of these combined categories.

U.S. Soft Drink Industry Retail Sales
Pepsi-Cola Share



U.S. retail sales of soft drinks exceeded \$47 billion. Pepsi-Cola brands account for nearly one-third of the industry.

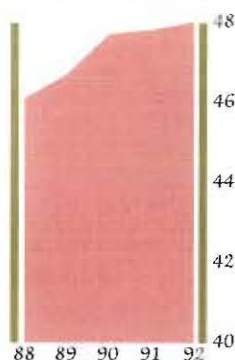


Acquired 1986. Estimated 1992 Retail Sales: \$151 Million.



Acquired 1986. Estimated 1992 Retail Sales (Diet and Regular): \$1.8 Billion. (PepsiCo owns brand 7UP outside the U.S.)

U.S. Soft Drink Consumption (Gallons Per Capita)



U.S. soft drink consumption reached 48 gallons per person.

U.S. Soft Drink Industry Case Sales Growth in Supermarkets vs. Pepsi-Cola System Growth 1992



Pepsi-Cola's carbonated soft drink volume in U.S. supermarkets grew faster than the industry.

of key administrative and business processes. The organizational restructuring was completed in 1992 and the redesign of core processes is currently underway. Implementation of the redesigned processes is expected to begin in 1994. The charge includes provisions for costs associated with redeployed and displaced employees, the redesign of core processes and office closures. The international restructuring charge includes \$18.5 million to streamline a newly acquired Spanish franchised bottling operation, which was formerly a joint venture. The remaining \$11.1 million represents costs associated with streamlining the worldwide field management organization. These restructuring actions, when fully implemented, are expected to result in annual domestic and international savings approximating \$105 million and \$14 million, respectively, providing additional resources to reinvest in the businesses and strengthen Pepsi-Cola's worldwide competitive position. The new accounting rules for retiree health benefits and income taxes resulted in incremental expenses of \$16.1 million (almost all domestic) and \$6.3 million (all domestic), respectively. Total 1993 expense for retiree health benefits is projected to be approximately \$12 million less than the total 1992 expense due to the impact of recent plan amendments described in Note 11.

Worldwide profits included amortization of intangible assets (principally domestic) of \$138 million in 1992 and \$118 million in 1991. This increase reflects the impact of the new income tax accounting rules and acquisitions.

Domestic profits declined 8% to \$686 million. Excluding the 1992 unusual items, profits grew \$78 million (10%). This growth was driven by higher prices that exceeded cost increases. The higher costs reflected growth in operating and administrative expenses, partially offset by lower ingredient and packaging costs. Acquisitions added \$11 million to profit growth. The domestic profit margin, excluding the 1992 unusual items, grew one-half point to 15.0%.

International profits decreased 4% to \$112 million. Excluding the 1992 unusual items, profits increased \$25 million (22%). Higher concentrate shipments added about \$20 million and acquisitions contributed \$8 million to profit growth. The net impact of concentrate price increases that exceeded higher operating expenses, led by Latin America, also contributed to the increase. Profits fell in bottling operations in Canada, reflecting declines in industry sales and intense competitive activity. Profits included gains on sales of assets of \$3.1 million in 1992 and \$5.7 million in 1991. The international profit margin, excluding the 1992 unusual items, was unchanged at 6.7%.

In 1992, Pepsi-Cola entered into a new, lower cost, long-term supply agreement for NutraSweet brand aspartame sweetener with its current supplier. The new agreement begins in 1993. Because of the dynamics of the highly competitive beverage industry, management cannot reasonably predict the effects, if any, of the new agreement on future operating profits of the segment.



Recent Introductions



1991 vs. 1990

Worldwide net sales increased 6% to \$6.9 billion. Domestic sales rose \$137 million (3%) to \$5.2 billion. The domestic advance reflected acquisitions of franchised bottlers, which contributed \$122 million, and higher concentrate pricing that was partially offset by lower prices to retailers in bottling operations.

International sales grew \$255 million (17%) to \$1.7 billion. Of this increase, acquisitions of franchised bottlers, principally in Canada, contributed \$76 million and volume growth provided about \$65 million, led by higher concentrate shipments to Latin America and Canada and finished product sales to franchisees in Japan. The balance of the growth was primarily due to higher prices led by Latin America.

Domestic case sales were about even compared to 1990, but rose 2% excluding the impact of the Burger King fountain business lost to a competitor in 1990. This performance was driven by gains in the Mountain Dew and Diet Pepsi brands, partially offset by a decline in brand Pepsi. International case sales increased 6%, but rose 8% excluding the impact of the halt in August 1990 of concentrate shipments to franchised bottlers in Iraq. This performance was driven by double-digit growth in Latin America led by Argentina. Case sales growth was aided by emerging markets such as India and China.

Worldwide operating profits advanced 12% to \$863 million. Excluding 1990 unusual charges of \$10.5 million for receivables exposures related to highly leveraged

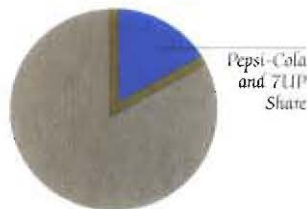
domestic retail customers, profits were up 11%.

Worldwide profits included amortization of intangible assets (principally domestic) of \$118 million in 1991 and \$111 million in 1990.

Domestic profits rose 11% to \$746 million. Excluding the 1990 unusual charges, profits grew \$62 million (9%). Acquisitions of franchised bottlers provided \$7 million of this increase. The balance of the profit growth reflected higher concentrate prices and lower ingredient costs, partially offset by higher marketing costs and lower prices in bottling operations. The domestic profit margin, excluding the 1990 unusual charges, grew almost one point to 14.4%.

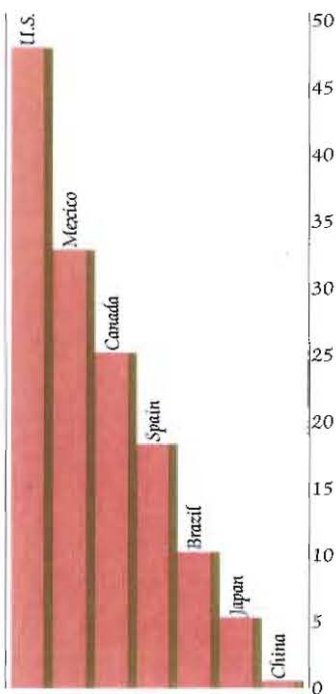
International profits increased \$23 million (25%) to \$117 million. This performance reflected about \$15 million from higher concentrate shipments and \$5.7 million in gains on asset sales, consisting of the sale to a third party of certain notes receivable previously written-off and the sale of an unused concentrate plant. Price increases were largely offset by higher operating and marketing expenses led by Latin America. The international profit margin increased by almost one-half point to 6.7%.

International Soft Drink Industry Case Sales Pepsi-Cola and 7UP Share



Pepsi-Cola and 7UP brands are available in 155 countries and territories outside the U.S. and account for nearly 18% of the international soft drink industry.

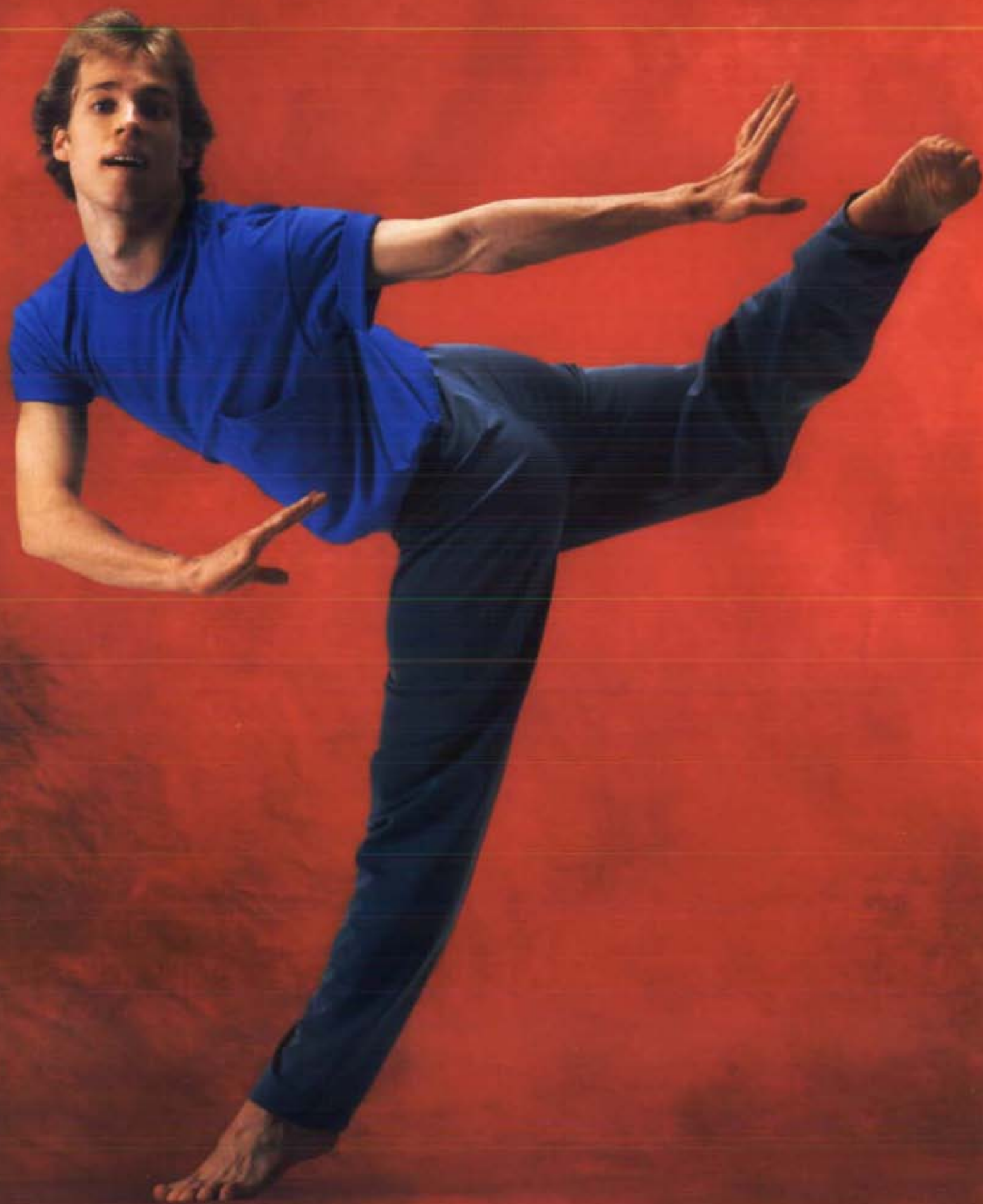
International Soft Drink Consumption vs. U.S. Consumption (Gallons Per Capita)



Annual per capita consumption of soft drinks around the world is low compared to U.S. rates.

Beverages





A Well-Positioned Past



or as

long as most people can remember, Frito-Lay has been the biggest snack chip company in the U.S. The company started about 60 years ago with two brands — Fritos corn chips and Lay's potato chips. Chee-tos brand cheese flavored snacks came next and then Doritos tortilla chips, our biggest brand in the U.S. By the end of the 1980s, we had eight of the 10 largest-selling snack chip brands in the U.S.

Very early on, we realized that there was great opportunity to replicate Frito-Lay's success worldwide. By 1966, we were in six markets outside the U.S. and in some, like Mexico, we had enormous success. In the 1980s, we decided to commit major resources to international snacks and we embarked on an aggressive acquisition program. By 1991, our snack foods were available in 23 countries.

While PepsiCo's success with snack foods was extraordinary, we faced a number of challenges as we entered the 1990s. In the U.S., the market was becoming more competitive, in terms of both price and product quality.

Worldwide, we saw tremendous opportunity to enter new markets, but we also needed to integrate some large acquisitions, just as recessions hit key international markets.

An Adaptable Present

The strategies we are using to meet these challenges are multifaceted.

First, to meet the increased competition, we reorganized our domestic business in 1991 to streamline it and focus more on our customers. Then, we improved the quality of our potato chip brands, and we marketed them more aggressively than ever before.

Overseas, we began building our business through acquisitions and by entering into business partnerships that would provide greater distribution of our products as well as develop new products. At the same time, we began restructuring some of our existing operations.

In 1992, we took many actions in support of these strategies, and we achieved excellent results. Here are some highlights and some of our achievements.

- U.S. sales were up 6%. Profits, excluding unusual items, were up 13%.
- Driven by acquisitions, international sales and profits, excluding unusual items, were up 44%.
- Worldwide retail sales of our snack brands reached nearly \$11 billion. U.S. retail sales reached nearly \$5.6 billion. International system retail sales exceeded \$5.0 billion.
- U.S. snack chip pound volume was up 7%. International systemwide

snack chip kilo volume was up 2%.

• In the U.S., we added 11,000 accounts and more than 460 routes. Our marketing activities resulted in some 14,000 additional super-market displays and 12 additional miles of shelf space.

• We significantly improved the quality of our leading potato chip brands, Lay's and Ruffles, making them tastier, crispier and crunchier.

• Frito-Lay staged "Doritos Day," where in 24 hours over 13,000 Frito-Lay employee volunteers distributed more than five million samples and free coupons for new Nacho Cheesier Doritos brand tortilla chips in 11,000 retail outlets.

• We introduced two new varieties of Doritos brand tortilla chips, two new sizes of Tostitos brand tortilla chips and a new flavor of Sunchips brand multigrain snacks.

• We expanded our distribution through non-traditional channels. For example, in the U.S., Sunchips brand multigrain snacks and Rold Gold brand pretzels are now served to travelers flying on American Airlines.

• We paved the way for major growth in Europe. PepsiCo Foods International (PFI) formed a joint venture with General Mills, Inc. The new company, Snack Ventures Europe, is the continent's largest snack chip company. It combines our snack businesses in Spain, Portugal

(\$ In Millions)	Domestic	International	Total
Sales	\$3,950	\$2,182	\$6,132
% Change	+ 6	+ 44	+ 17
Profits	\$ 776	\$ 209	\$ 985
% Change	+ 26*	+ 49*	+ 30*

*These comparisons are affected by unusual items. See page 28.



Introduced 1932. Estimated 1992
Retail Sales: \$604 Million.

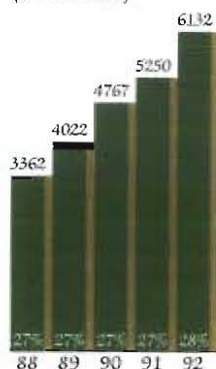


Introduced 1938. Estimated 1992
Retail Sales: \$966 Million.

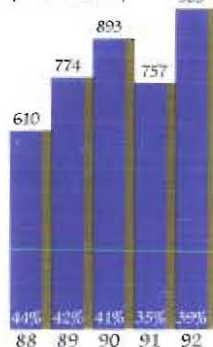
Snack Foods

Frito-Lay, Inc.
PepsiCo Foods International

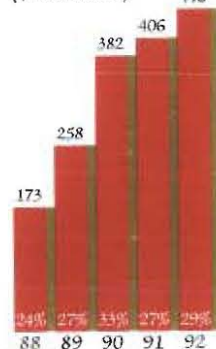
**Snack Foods
Net Sales**
% Of Total Net Sales
(\$ in Millions)



**Snack Foods
Operating Profits**
% Of Total Segment
Operating Profits
(\$ in Millions)



**Snack Foods
Capital Spending**
% Of Total Segment
Capital Spending
(\$ in Millions)



and Greece with the snack businesses of General Mills in France, Belgium and the Netherlands. The new venture will develop new products, as well as market existing PFI and General Mills brands.

- In Canada, we bought out our joint venture partner in Hostess Frito-Lay, Canada's number one snack chip company.
- In Mexico, we now have a controlling interest in our Gamesa cookie business.
- We launched 34 snack chip products in international markets. This included everything from our global brands such as Ruffles brand potato chips in Poland to specialty products like Fonzie's brand corn snacks in Chile.
- We continued to build our international cookie and confectionery businesses. Today, these snacks account for about one-fourth of international system retail sales.

A Flexible Future... A Chairman's View:



see an extraordinary future for our snack food business. Frito-Lay's ability to continue to improve its products and come out with new products shows me we have great momentum.

Overseas, we're currently bucking some rough economies, but we're factoring that into our plans and working to be the low cost competitor.

Most important, we now have a

structure in place that allows us to really build the business in our key international countries. For example, we're consolidating our Smiths and Walkers businesses in the United Kingdom and we're improving efficiency at Gamesa in Mexico.

Our snack food products are now available in 27 countries. But that's only about one-sixth of the countries where our beverages are available, so you can be sure we'll be increasing our presence throughout the world.

I see snacks continuing to grow in 1993 and for years to come.

Management's Analysis

(See "Management's Analysis — Overview" on page 26 and "Business Segments" on page 28.)

1992 vs. 1991

Worldwide net sales rose 17% to \$6.1 billion. Domestic sales grew \$213 million (6%) to \$4.0 billion. The domestic increase was driven by volume growth, which contributed about \$265 million, partially offset by the impact of lower gross prices and an unfavorable package size mix shift. Promotional price allowances, which declined from last year's level, are reported as marketing expenses and therefore do not reduce reported sales. International sales rose \$670 million (44%) to \$2.2 billion. Comparisons are affected by acquisition activity that included buying out PepsiCo's joint venture partners at Hostess Frito-Lay (Canada) and Arnott's (Australia) and securing controlling interests in the Gamesa (Mexico) and Wedel (Poland) sweet snack businesses, as well as the absence of results of a small business to be disposed (collectively, "net

acquisitions"). Excluding the impact of net acquisitions, international sales grew \$75 million (5%). This growth was driven by higher prices, partially offset by an estimated \$15 million impact of lower volumes.

Total domestic pound sales advanced 7%, led by Lay's and Ruffles brands potato chips, Tostitos brand tortilla chips and Sunchips brand multigrain snacks. These increases were partially offset by a decline in Santitas and Doritos brands tortilla chips, Fritos brand corn chips and Chee-tos brand cheese flavored snacks. The relative performances of potato and corn products in 1992 were due partly to a weather-related potato crop shortage last year.

Total international snack chip kilo volume, excluding net acquisitions, decreased 1% led by a double-digit decline in Brazil and reflecting a small decline in the U.K. offset by a small increase in Mexico. This volume performance includes only operations consolidated for at least one year. Due to the recent significant changes in the ownership of PepsiCo's snack chip businesses, including the Canada and Australia joint venture buy-outs and the contribution of PepsiCo's previously consolidated businesses in Spain, Portugal and Greece to the new joint venture with General Mills, Inc., this traditional volume measure has become less meaningful. Systemwide volume performance, which includes volume for both consolidated and joint venture businesses operated for at least one year, will be an important measure going forward. For 1992, systemwide snack chip volume grew 2% led by double-digit growth in Canada.



Introduced 1948. Estimated 1992
Retail Sales: \$733 Million.



Acquired 1958. Estimated 1992
Retail Sales: \$1.3 Billion.

Snack Foods

Worldwide operating profits increased 30% to \$1.0 billion. Excluding unusual items in both 1992 and 1991, profits increased 19%. Unusual items in 1992 totaled \$71.1 million, comprised of \$40.3 million in international charges for restructuring actions, the largest component of which is for consolidating and streamlining the Smiths and Walkers businesses in the U.K., and \$30.8 million in incremental expenses due to adopting the new accounting rules for retiree health benefits (\$28.2 million, almost all domestic) and income taxes (\$2.6 million, all international). The restructuring actions, when fully implemented, are expected to result in annual savings of about \$35 million, providing additional resources for reinvestment in the businesses to strengthen competitive positions. Total 1993 expense for retiree health benefits is projected to be approximately \$24 million less than the total 1992 expense due to the impact of recent plan amendments described in Note 11. Unusual charges in 1991 totaled \$127 million, comprised of \$91.4 million and \$35.6 million for restructuring actions designed primarily to streamline operations of the domestic and international snack food businesses, respectively.

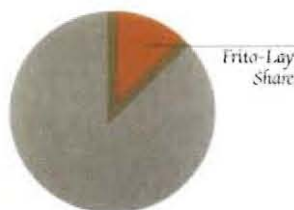
Worldwide profits included amortization of intangible assets (almost all international) of \$41 million in 1992 and \$36 million in 1991, with the increase due to acquisitions.

Domestic profits rose 26% to \$776 million. Excluding the 1992 and 1991 unusual items, profits increased \$96 million (13%). Volume growth contributed about \$160 million to profits. Raw material sav-

ings, reflecting lower costs for potatoes, packaging and cooking oils, and lower administrative expenses resulting from the 1991 restructuring actions also aided profit growth. The favorable comparison for potato costs, which are at the lowest level in the past five years, reflects the 1991 cost increase resulting from a weather-related crop shortage. These benefits were partially offset by higher operating expenses and other manufacturing costs, including costs associated with improving potato chip quality. An unfavorable sales mix shift as well as lower net prices, reflecting lower gross prices that exceeded the impact of a lower level of promotional price allowances, also hampered profit growth. The domestic profit margin, excluding the 1992 and 1991 unusual items, rose nearly one and one-half points to 20.3%.

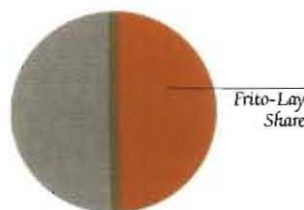
International profits increased 49% to \$209 million. Excluding the net acquisitions, which contributed \$52 million to profits, and the 1992 and 1991 unusual items, profits increased \$25 million (14%). This growth reflected price increases that exceeded higher operating costs, partially offset by an estimated \$10 million impact of lower volumes. Double-digit profit growth in Mexico and the U.K. was partially offset by a decline in Brazil, due primarily to lower volumes. Profit growth in Mexico primarily reflected price increases that exceeded higher costs. In the U.K., the combined benefit of price increases and the 1992 cost savings from the restructuring actions announced last year was offset by higher product costs and the impact of lower volumes. As a result, the profit growth was driven by lower pension expense

U.S. Snack Food Industry Retail Sales Frito-Lay Share



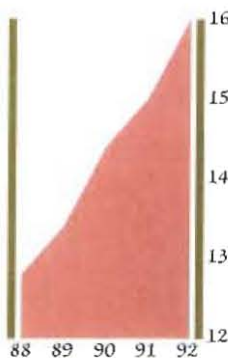
U.S. retail sales of snack foods, such as chips, candy, cookies, nuts and other items, totaled more than \$44 billion. Frito-Lay's share was \$5.6 billion, about 13%.

U.S. Snack Chip Industry Retail Sales Frito-Lay Share



U.S. retail sales of snack chips reached more than \$10 billion. Frito-Lay's share was about half.

U.S. Snack Chip Consumption (Lbs. Per Capita)



U.S. snack chip consumption climbed to 16 pounds per person.



Acquired 1961. Estimated 1992 Retail Sales: \$122 Million.



Introduced 1966. Estimated 1992 Retail Sales: \$1.2 Billion.



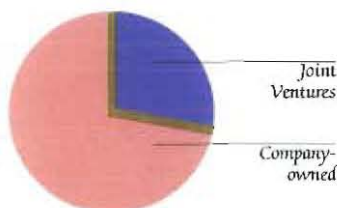
Introduced 1981. Estimated 1992 Retail Sales: \$357 Million.

**U.S. Snack Chip Industry
Pound Sales Growth in
Supermarkets vs. Frito-Lay
Growth 1992**



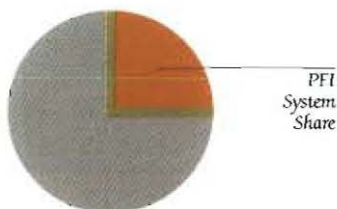
Pound sales of Frito-Lay snack chip products in U.S. supermarkets grew 7.2%, compared with snack chip industry growth of 4.0%

**PFI System Wholesale
Sales 1992**



Company-owned operations represented 72% and joint ventures represented 28% of PFI system wholesale sales of \$3.9 billion, assuming all 1992 acquisition and joint venture activity took place at the beginning of the year. PFI joint venture ownership is principally 50% or more.

**International Snack Chip
Industry Retail Sales
PFI System Share**



International retail sales of snack chips totaled about \$1.4 billion. Products of the PFI system represented about \$3.5 billion, or 25%.

representing the catch-up effect arising from the final settlement of pension assets related to the 1989 acquisition of the U.K. operations. The international profit margin, excluding the 1992 and 1991 unusual items, was unchanged at 11.6%.

1991 vs. 1990

Worldwide net sales rose 10% to \$5.3 billion. Domestic sales grew \$266 million (8%) to \$3.7 billion, with volume growth, aided by more competitive promotional price allowance programs, contributing about \$255 million of the increase. The remaining growth was principally due to price increases that were partially offset by an unfavorable package size and product mix shift. Promotional price allowances, which increased over last year's level, are reported as marketing expenses and therefore do not reduce reported sales. International sales advanced \$217 million (17%) to \$1.5 billion, with volume gains contributing about \$100 million of the increase and the balance of the growth due principally to price increases in Mexico.

Total domestic pound sales advanced 7%, led by the new SunChips brand multigrain snacks product, Tostitos brand tortilla chips, Lay's brand potato chips and Chee-tos brand cheese flavored snacks. These increases were partially offset by a decline in Ruffles brand potato chips. International snack chip kilo growth was 6%, driven by a double-digit advance in Mexico, while volume in the U.K. was about even with 1990. The volume performance in the U.K. reflected the introduction of Frito-Lay's brands, principally

Ruffles brand potato chips, offset by declines in other brands. Growth in smaller markets was led by Brazil.

Worldwide operating profits decreased 15% to \$757 million. Excluding unusual charges in both 1991 and 1990, profits declined 2%. Unusual charges in 1991 totaled \$127 million, comprised of \$91.4 million and \$35.6 million for restructuring actions designed primarily to streamline operations of the domestic and international snack food businesses, respectively. Approximately \$64 million of the domestic charge related to administrative workforce reorganizations and reductions, and the balance related to product line and production capacity reductions. The international charge included \$23.6 million related to productivity initiatives in the U.K., including facility closures and streamlining of selling and administrative processes. These actions, when fully implemented, were expected to result in annual domestic and international savings approximating \$100 million and \$15 million, respectively, providing additional resources for reinvestment in the businesses to strengthen competitive positions. The international charge also included \$12 million related to the probable disposition of a small business. Unusual charges in 1990 totaled \$10.6 million for receivables exposures related to highly leveraged domestic retail customers.

Worldwide profits included amortization of intangible assets (almost all international) of \$36 million in 1991 and \$37 million in 1990.

Domestic profits declined 16% to \$617 million. Excluding the 1991 and 1990 unusual charges, profits decreased \$35 million (5%).



Introduced 1986. Estimated 1992
Retail Sales: \$124 Million.



Acquired 1989. Estimated 1992
Retail Sales: \$378 Million.
(Sold outside the U.S.)



Introduced 1991. Estimated 1992
Retail Sales: \$192 Million.

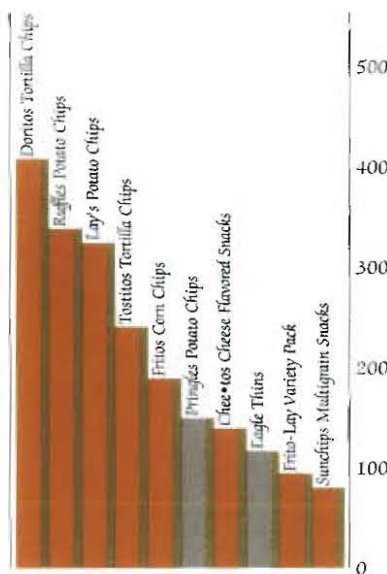
Volume growth contributed about \$145 million to profits. This benefit was more than offset by higher selling and manufacturing expenses, lower net prices (reflecting increased promotional price allowances) and an unfavorable mix shift to lower profit packages and products. Higher manufacturing expenses reflected potato cost increases that were largely due to a weather-related potato crop shortage in the second quarter of 1991. Frito-Lay hedges the costs of a portion of its corn and cooking oil purchases through commodities futures contracts, but there is no futures market for potatoes. The domestic profit margin, excluding the 1991 and 1990 unusual charges, fell two and one-half points to 18.9%.

International profits decreased 13% to \$140 million. Excluding the 1991 unusual charges, profits increased \$15 million (10%). Volume growth contributed about \$65 million to profits. This benefit was partially offset by higher manufacturing and other operating expenses that exceeded price increases. An unfavorable translation impact of a stronger U.S. dollar depressed profits by about \$3 million. The profit advance reflected double-digit growth in Mexico that was partially offset by a decline in the U.K. Profits were also aided by growth in Brazil. The profit performance in Mexico was due to volume growth, partially offset by manufacturing and operating cost increases that exceeded higher prices. These cost increases reflected higher commodity costs, principally potatoes, and increased costs associated with new manufacturing plants completed in early 1991. The U.K. profit decline

was due principally to higher operating expenses, partially offset by price increases and improved manufacturing productivity. An unfavorable translation impact also contributed to the U.K. profit decline. Profit growth in Brazil was driven by higher volumes. The international profit margin, excluding the 1991 unusual charges, declined nearly one point to 11.6%.

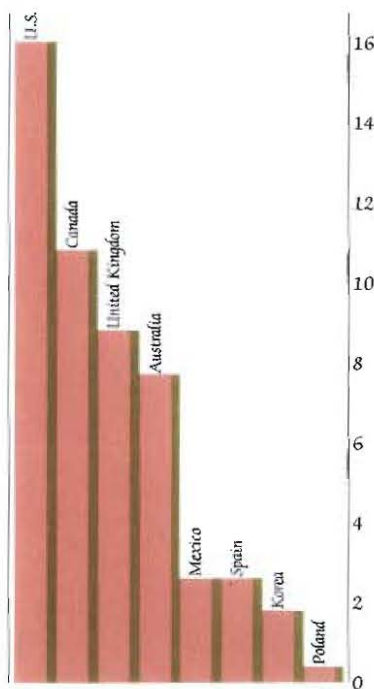
Top-Selling Snack Chip Items In U.S. Supermarkets

(Sales \$ In Millions)



Eight of Frito-Lay's brands were among the 10 largest-selling snack chip products in U.S. supermarkets.

International Snack Chip Consumption vs. U.S. Consumption (Lbs. Per Capita)



Annual international per capita consumption of snack chips is low compared to U.S. rates, creating huge potential for PFI.

Snack Foods



Recent Introductions



(Sold outside the U.S.)



A Well-Positioned Past



PepsiCo was created in 1965 by the merger of Pepsi-Cola and Frito-Lay. For the next decade, soft drinks and snack foods drove our growth. By the mid-1970s, we were seeking a third growth business that would respond to PepsiCo's skills in marketing and operations.

We focused on the restaurant business and purchased Pizza Hut in 1977 and Taco Bell in 1978. Both of these chains had huge potential. In 1986, PepsiCo acquired Kentucky Fried Chicken, another promising chain. With KFC, we had more units than any other restaurant system in the world.

As we approached the 1990s, our restaurant system faced a number of challenges. We had to respond to more mobile consumers, always on the run. We had to keep costs down as families began to seek greater value. Plus, we had to create new products that excited consumers and responded to their demand for variety.

An Adaptable Present

Our chains began aggressively addressing these challenges as far back as the mid-1980s. At Pizza Hut we began delivery. Taco Bell introduced its value menu. And KFC set about updating its image.

As we entered the 1990s, we continued to adapt our system to the

changing market. Pizza Hut and Taco Bell began expanding distribution by selling their products from kiosks. KFC changed its logo from Kentucky Fried Chicken to "KFC" and introduced convenient snack products like Hot Wings pieces.

In 1992, we built on this success. Here are some of our achievements.

- U.S. company-owned restaurant sales were up 14%. Profits, excluding unusual items, grew 17%.
- International company-owned restaurant sales were up 29%. Profits were up 25%.
- Worldwide system sales of Pizza Hut, Taco Bell and KFC products reached \$15.7 billion.
- The PepsiCo worldwide restaurant system reached 22,336 units. We added an average of nearly four units every day.
- Average system sales at PepsiCo's U.S. restaurants grew or remained

stable, even while we were opening more restaurants and selling our products in more places.

- Pizza Hut opened in five new international markets, Taco Bell in four and KFC in two. We're now in 84 countries and territories outside the U.S.
- PepsiCo acquired an equity position in Carts of Colorado, Inc., the leading manufacturer of mobile merchandising carts. Mobile carts let us sell our products more readily at airports, sports stadiums, fairs and similar places.
- PepsiCo purchased an equity interest in California Pizza Kitchen, Inc., a chain of casual, full-service restaurants that offers specialty wood-fired pizzas, pastas, salads and desserts.
- Pizza Hut U.S. system delivery operations generated nearly \$1.5 billion in sales. In 1993, we'll be testing delivery of full meals.

(\$ In Millions)	Domestic	International	Total
Sales	\$7,115	\$1,117	\$8,232
% Change	+ 14	+ 29	+ 16
Profits	\$ 598	\$ 121	\$ 719
% Change	+ 25*	+ 25	+ 25*

	Pizza Hut	Taco Bell	KFC
Sales	\$3,604	\$2,460	\$2,169
% Change	+ 11	+ 21	+ 18
Profits	\$ 335	\$ 214	\$ 169
% Change	+ 7*	+ 19*	+ 110*
System sales	\$5,700	\$3,300	\$6,700
% Change	+ 8%	+ 18%	+ 8%

*These comparisons are affected by unusual items. See page 28.

Restaurants

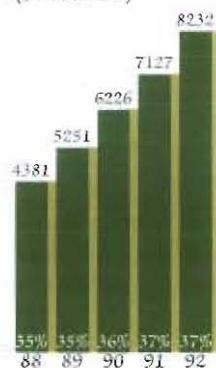
Pizza Hut
Taco Bell
KFC



Pizza Hut Acquired 1977. Estimated 1992
System Retail Sales: \$5.7 Billion.

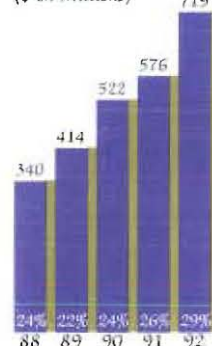
Restaurants Net Sales

% Of Total Net Sales
(\$ In Millions)



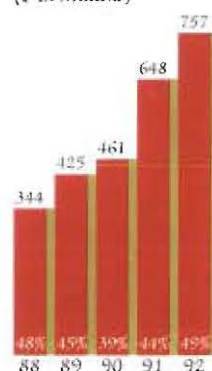
Restaurants Operating Profits

% Of Total Segment
Operating Profits
(\$ In Millions)



Restaurants Capital Spending

% Of Total Segment
Capital Spending
(\$ In Millions)



- In the U.S., Pizza Hut began testing Fastinos, a fast food pizza and pasta concept with a drive-thru window. With the help of new cooking technology, pizzas are ready in about 90 seconds.

- We added a lunch buffet in 2,100 U.S. company-owned Pizza Hut units, increasing our dine-in sales.

- Taco Bell's commitment to value pricing brought more customers into the restaurants, increasing same store sales by 6%.

- Taco Bell brought its Mexican-style food to Mexico, with the opening of our first kiosk in Mexico City. Since then we've opened two additional kiosks there.

- Taco Bell expanded testing of Hot 'n Now, a double drive-thru hamburger chain, offering fast service and low prices. We purchased Hot 'n Now at the end of 1990.

- KFC improved U.S. operations, raising customer satisfaction and lowering costs. We continued to upgrade KFC units, with more than three-fourths of the U.S. system units refurbished since 1989.

- KFC introduced new limited time menu items to build sales in the U.S. These products include Oriental Wings, Popcorn Chicken and Honey BBQ Chicken, each of which increased sales when offered.

- KFC offered a new, rotisserie chicken in three U.S. test markets. In Australia, we tested Tenderbake chicken. Tenderbake performed so well, we will introduce it to consumers across Australia in 1993.

- KFC introduced its All You Can Eat Buffet in 675 U.S. system restaurants, increasing sales. We plan to have the buffet in about 2,000 units by the end of 1993.

- PFS, our foodservice distribution company that supplies our restau-

rants with everything required to run a restaurant, added more than 1,200 restaurants to its routes. New operations in Australia and Mexico will serve these key markets. PFS now serves nearly 14,000 worldwide company-owned and franchised restaurants.

- PFS expanded its services to other PepsiCo divisions. For example, PFS provided Pepsi-Cola International with promotional items for pop singer Michael Jackson's international tour.

- PFS added a service to maintain the restaurant equipment it distributes.

A Flexible Future...

A Chairman's View:



he U.S.

quick service restaurant business is increasingly competitive. But there's still enormous demand for variety, convenience and value. In 1970, quick service sales were about 14% of all foodservice industry sales. Now they're about 30% — that gives us more room to grow.

The key is maintaining a sharp focus on the consumer. For example, people are busier today than ever, so they want prepared foods that are convenient and reasonably priced. We're giving them better value and putting our products in more convenient places.

Consider our potential this way: The typical U.S. consumer eats about 16 meals prepared away from

home in a month, with one of those meals purchased at our restaurant chains. If we were to increase that number so each of our three chains served one of those meals, we would add about \$20 billion to our system retail sales.

Add to that the burgeoning international market and you can understand why we see great potential.

For 1993, we expect worldwide unit growth, new products and distribution methods, and our "value" commitment to drive strong growth.

Management's Analysis

(See "Management's Analysis — Overview" on page 26 and "Business Segments" on page 28.)

1992 vs. 1991

Worldwide net sales rose \$1.1 billion (16%) to \$8.2 billion. This advance was driven by additional units (units constructed and acquired from franchisees, net of units closed and sold), which contributed \$936 million. Higher net prices and volume growth also aided the sales gain. Domestic sales grew 14% to \$7.1 billion and international sales were up 29% to \$1.1 billion.

Worldwide operating profits grew 25% to \$719 million. Profits in 1992 were reduced by \$15.4 million due to adopting the new accounting rules for retiree health benefits (\$6.1 million, all domestic) and income taxes (\$7.9 million for domestic and \$1.4 million for international). Profits in 1991 included \$43 million in KFC unusual charges described below. Excluding these 1992 and 1991 unusual items, worldwide profits rose \$115 million (19%), driven by \$108 million from



Taco Bell Acquired 1978. Estimated 1992 System Retail Sales: \$3.3 Billion.

Restaurants

additional units. Higher franchise royalty revenues were offset by increased operating costs that exceeded higher net prices. Domestic profits grew 17%, excluding the unusual items, and international profits rose 25%.

Pizza Hut's worldwide sales increased \$345 million (11%) to \$3.6 billion. The domestic operations represent the major portion of worldwide Pizza Hut. Additional units, led by delivery units, contributed \$343 million to the worldwide sales increase. The benefit of higher net prices, which reflected a lower level of price promotions in the first half of 1992, was offset by an estimated \$95 million impact of lower volumes. Worldwide profits grew 7% to \$335 million. Excluding the unfavorable \$7.3 million impact (almost all domestic) of the 1992 accounting rule changes, profits rose \$28 million (9%). This growth was driven by additional units, which contributed \$31 million. An estimated \$40 million impact of lower volumes was largely offset by higher net prices that exceeded increased food (including cheese) and other operating costs as well as increased franchise royalty revenues. The profit performance also reflected total domestic field and headquarters administrative expenses that were about even with last year.

Comparable sales for domestic company-owned units (same store sales) were even with 1991 though volumes declined. This performance reflected slowing growth in delivery operations offset by declines in carry-out sales. Although dine-in same store sales were about even, trends are improving due to the introduction of the all-you-can-eat pizza and salad lunch buffet. At

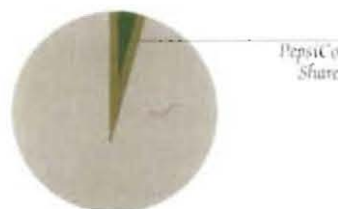
year-end 1992, the buffets were in approximately 2,100 units or about 75% of domestic company-owned dine-in units.

Pizza Hut's international sales posted strong double-digit growth led by additional delivery units in Canada and Australia and dine-in units in Puerto Rico. Double-digit profit growth reflected the additional units and higher franchise royalty revenues. Volume declines resulted in slightly lower profits in Australia, the largest sales market.

Pizza Hut's worldwide profits included amortization of intangible assets (principally domestic) of \$33 million in 1992 and \$26 million in 1991, with the increase reflecting acquisitions of franchisees and the impact of the new income tax accounting rules. The worldwide profit margin, excluding the impact of the accounting rule changes, was about even at 9.5%.

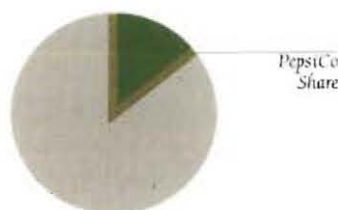
Taco Bell's worldwide sales rose \$422 million (21%) to \$2.5 billion. The domestic operations represent substantially all of worldwide Taco Bell. Additional units contributed \$248 million to the worldwide sales advance and volume gains provided about \$150 million. Worldwide profits grew 19% to \$214 million. Excluding the unfavorable \$2.9 million impact (all domestic) of the 1992 accounting rule changes, profits rose \$37 million (20%). Of this increase, volume growth contributed about \$40 million and additional units provided \$32 million. These benefits, as well as higher franchise royalty revenues, were partially offset by higher labor and other store operating costs and increased headquarters administrative expenses for the development of new systems and

U.S. Foodservice Industry Retail Sales PepsiCo Share



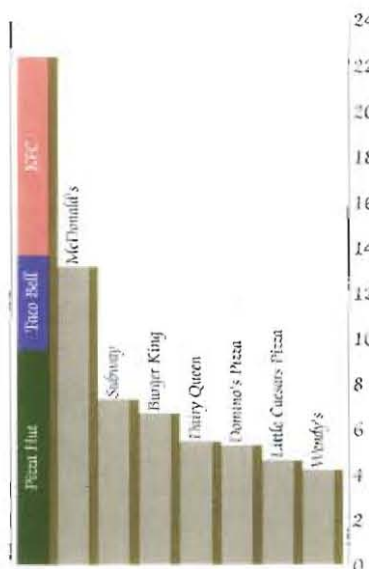
PepsiCo U.S. restaurant system sales represented over 4% of the total \$255 billion foodservice industry.

U.S. Quick Service Restaurant Retail Sales PepsiCo Share



PepsiCo U.S. restaurant system sales of \$10.9 billion represented more than 14% of \$76 billion quick service restaurant sales.

Largest Worldwide Restaurant Systems (Units In Thousands)

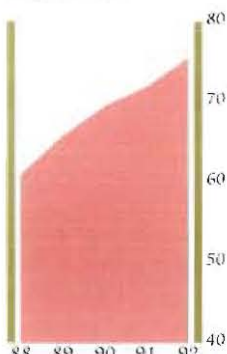


Combined Pizza Hut, Taco Bell and KFC units made PepsiCo the largest restaurant system in the world.



KFC Acquired 1986. Estimated 1992 System Retail Sales: \$6.7 Billion.

U.S. Quick Service Restaurant Sales
(\$ in Billions)



U.S. quick service restaurant sales reached nearly \$76 billion.

U.S. Quick Service Restaurant Sales Growth vs. PepsiCo System Growth 1992



PepsiCo U.S. restaurant system sales grew 6.9%, compared with quick service restaurant sales growth of 5.2%

concepts, including costs to support the Hot 'n Now concept. Same store sales grew 6% due to volume growth. Taco Bell's profits included amortization of domestic intangible assets of \$16 million in 1992 and \$11 million in 1991, with the increase reflecting acquisitions of franchisees and the impact of the new income tax accounting rules.

Taco Bell's international operations posted double-digit sales growth and a small profit compared to a small loss in 1991. This performance was led by volume growth in Canada. The worldwide profit margin, excluding the impact of the accounting rule changes, was even at 8.8%.

KFC's worldwide sales rose \$338 million (18%) to \$2.2 billion. This increase was driven by additional units, which contributed \$345 million. Sales growth was depressed by the unfavorable translation impact of a weaker U.S. dollar late in the year of \$22 million. KFC's international sales represented about 30% of KFC's worldwide sales in both 1992 and 1991.

KFC's worldwide profits rose 110% to \$169 million. Profits in 1992 were reduced by \$5.2 million in incremental expenses (\$3.9 million for domestic and \$1.3 million for international) resulting from the accounting rule changes. Profits in 1991 included restructuring charges to streamline operations of \$32.8 million in domestic and \$1.2 million in international and a \$9 million domestic charge related to a delay in the U.S. roll-out of Skinfree Crispy chicken. Excluding these 1992 and 1991 unusual items, KFC's worldwide profits rose \$51 million (41%), driven by additional units which contributed \$46 mil-

lion. KFC's international profits represented about 50% of KFC's worldwide profits in 1992 and 55% in 1991.

Double-digit growth in KFC's domestic sales was driven by additional units. A significant increase in domestic profits reflected the additional units, a sales mix shift to higher margin products such as Popcorn Chicken, lower headquarters administrative expenses resulting from restructuring actions announced last year and implemented early in 1992, as well as the impact of higher volumes. These benefits were partially offset by a higher level of price promotions. Same store sales were even with 1991 though volumes were up slightly.

Double-digit sales growth in KFC's international operations was driven by additional units, particularly in Canada and Australia. Sales growth was depressed by the unfavorable translation impact noted above. International profits grew at a double-digit rate due to higher franchise royalty revenues and growth in Canada and Mexico. Profits declined in Australia, the largest sales market, reflecting lower volumes and an unfavorable translation impact.

KFC's worldwide profits included amortization of intangible assets of \$38 million in 1992 and \$17 million in 1991, with the increase reflecting acquisitions of domestic and international franchisees and the impact of the new income tax accounting rules. The worldwide profit margin, excluding the impact of the accounting rule changes and the 1991 unusual charges, increased over one point to 8.0% due to improved domestic results.

1991 vs. 1990

Worldwide net sales rose \$901 million (14%) to \$7.1 billion. This advance reflected \$695 million from additional units and about \$280 million from volume growth. These increases were partially offset by lower net prices at Pizza Hut and Taco Bell. Domestic sales grew 13% to \$6.3 billion and international sales were up 27% to \$869 million.

Worldwide operating profits grew 10% to \$576 million. Profits in 1991 included \$43 million in KFC unusual charges described below. Profits in 1990 included unusual charges of \$17.6 million to close underperforming units at all three chains and \$10.4 million at Pizza Hut to consolidate domestic field operations and relocate international headquarters. Excluding the 1991 and 1990 unusual charges, worldwide profits rose \$68 million (12%). This advance reflected about \$120 million from volume growth and \$70 million from additional units, with lower domestic food costs and higher franchise royalty revenues also contributing to the profit growth. These benefits were partially offset by the lower net prices and higher operating expenses. Excluding the unusual charges, domestic and international profits were up 10% and 25%, respectively.

Pizza Hut's worldwide sales increased \$308 million (10%) to \$3.3 billion. Of this advance, \$292 million came from additional units and volume growth contributed about \$85 million. These increases were partially offset by lower net prices, due to a higher level of restaurant price promotions, and lower wholesale prices for food prod-



Restaurants

ucts sold to franchisees. Worldwide profits grew 28% to \$315 million. Excluding the 1990 unusual charges, profits rose \$49 million (19%), reflecting \$32 million from additional units and about \$30 million from volume growth. These benefits were partially offset by the net impact of the lower net prices, higher labor costs, favorable food costs (principally cheese) and higher franchise royalty revenues. Due partly to benefits of the 1990 reorganization, total domestic field and headquarters administrative expenses were about even with last year. Same store sales advanced 1% though volume growth was higher. Strong same store sales and profit growth in both delivery units and dine-in units with delivery were partially offset by declines in other dine-in units.

Pizza Hut's international sales and profits posted double-digit growth. The sales increase was driven by additional units in Germany and Canada and volume growth in Australia delivery operations. Profit growth was led by higher franchise royalty revenues and advances in Australia and Canada.

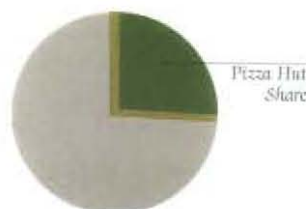
Pizza Hut's worldwide profits included amortization of intangible assets (principally domestic) of \$26 million in 1991 and \$20 million in 1990, with the increase reflecting acquisitions of franchisees. The worldwide profit margin, excluding the 1990 unusual charges, grew over one-half point to 9.7%.

Taco Bell's worldwide sales rose \$293 million (17%) to \$2.0 billion. Volume growth contributed about \$180 million to the sales advance and additional units provided \$151 million. Partially offsetting these benefits were lower value-

oriented menu prices in restaurants and lower wholesale prices for food products sold to franchisees. Worldwide profits grew 21% to \$181 million. Excluding the unusual charge in 1990, profits rose \$27 million (18%). Of this increase, volume growth contributed about \$80 million and additional units provided \$15 million. Higher franchise royalty revenues also aided profits. Partially offsetting these benefits were the lower prices and higher store operating costs, as well as increased headquarters administrative expenses that included strategic spending for field operations management hiring and training, new retail distribution concepts and advanced computer systems for stores. The impact of lower food costs was offset by the increased use of more costly pre-prepared ingredients, which has improved labor efficiency. Same store sales grew 5% though volume growth was higher. Taco Bell's profits included amortization of domestic intangible assets of \$11 million in 1991 and \$8 million in 1990. On a small base, Taco Bell's international operations posted double-digit sales growth, reflecting volume gains in Canada, while losses were about even with 1990. The worldwide profit margin, excluding the 1990 unusual charge, was even at 8.9%.

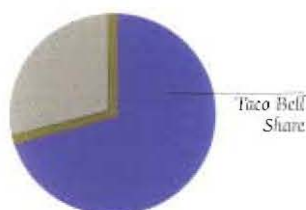
KFC's worldwide sales rose \$300 million (20%) to \$1.8 billion. Additional units contributed \$252 million of the increase and about \$15 million came from international volume gains. Higher net prices also aided growth. KFC's international sales represented about 30% of KFC's worldwide sales in both 1991 and 1990.

U.S. Pizza Restaurant Segment Pizza Hut Share



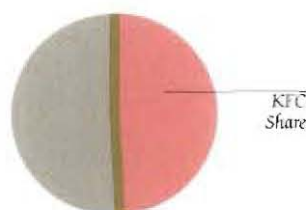
With U.S. system sales of \$4.3 billion, or more than 25% of the segment, Pizza Hut led the \$16.4 billion pizza restaurant category.

U.S. Mexican-Style Restaurant Segment Taco Bell Share



With U.S. system sales of \$3.2 billion, or about 70% of the segment, Taco Bell led the \$4.6 billion Mexican-style restaurant category.

U.S. Chicken Restaurant Segment KFC Share



With U.S. system sales of \$3.4 billion, or about half the segment, KFC led the \$7.0 billion chicken restaurant category.



Restaurant Unit Growth

Number of System Units Worldwide (Year-end 1987-1992)

Year	Pizza Hut	Taco Bell	KFC	Total
1987	6,210	2,738	7,522	16,470
1988	6,662	2,930	7,761	17,353
1989	7,502	3,125	7,948	18,575
1990	8,220	3,349	8,187	19,756
1991	8,837	3,670	8,480	20,987
1992	9,454	4,153	8,729	22,336
Five-year Compounded Annual Growth Rate				
	8.8%	8.7%	3.0%	6.3%

Number of System Units Worldwide (Year-end 1992)

	Pizza Hut	Taco Bell	KFC	Total
United States				
Company	4,301	2,498	1,994	8,793
Franchised	2,905	1,446	3,074	7,425
Licensed	402	134	21	557
Total U.S.	7,608	4,078	5,089	16,775
International				
Company	539	51	726	1,316
Joint Venture	370	-	474	844
Franchised/Licensed	937	24	2,440	3,401
Total International	1,846	75	3,640	5,561
Total Worldwide	9,454	4,153	8,729	22,336
Unit totals include 477 kiosks (primarily Pizza Hut) and 293 other special concepts. Taco Bell U.S. unit count includes Hot 'n Now: 99 company and 38 franchised. U.S. count does not include 29 California Pizza Kitchen, Inc. units.				

Restaurant Sales Growth

(Compounded annual growth rates)

Average Domestic System Sales Per Unit (Thousands)*

	1987	1988	1989	1990	1991	1992	5-Year % Growth
PH	\$490	\$520	\$570	\$607	\$613	\$612	4.5
TB	579	589	686	771	814	866	8.4
KFC	558	597	607	650	675	684	4.2

*Excludes sales from kiosks and other special concepts

Worldwide System Sales 1987-1992 (Billions)

	1987	1988	1989	1990	1991	1992	5-Year % Growth
PH	\$2.9	\$3.4	\$4.1	\$4.9	\$5.3	\$5.7	14.5
TB	1.5	1.6	2.1	2.4	2.8	3.3	17.1
KFC	4.1	5.0	5.4	5.8	6.2	6.7	10.3
Total	\$8.5	\$10.0	\$11.6	\$13.1	\$14.3	\$15.7	13.1

Worldwide System Sales 1992 (Billions)

	Pizza Hut	Taco Bell	KFC	Total
Domestic	\$4.3	\$3.2	\$3.4	\$10.9
International	1.4	.1	3.3	4.8
Total	\$5.7	\$3.3	\$6.7	\$15.7

KFC's worldwide profits fell 37% to \$81 million. Profits in 1991 included a \$34 million unusual charge primarily for a restructuring of domestic processes to improve overall productivity and customer service. The charge included costs for the intended elimination of certain positions, relocation of personnel and closing of offices. These actions, when fully implemented, were expected to result in annual savings approximating \$25 million, providing additional resources for reinvestment in the business to strengthen competitive positions. Profits in 1991 also included a \$9 million domestic unusual charge associated with a delay of the U.S. roll-out of Skinfree Crispy. The charge included payments to suppliers for unrecovered start-up costs and unused capacity costs due to lower 1991 production levels. Improvements in the product's quality and profitability were achieved, and the U.S. roll-out was completed in 1992.

Excluding the 1991 and 1990 unusual charges, KFC's worldwide profits fell \$8 million (6%). The lower profits reflected higher store operating costs, due largely to higher domestic product costs, as well as increased field and headquarters administrative expenses. These factors were partially offset by contributions from additional units of \$23 million, higher net prices, international volume growth and increased franchise royalty revenues. KFC's international profits represented about 55% of KFC's worldwide profits in 1991 and 45% in 1990.

Double-digit growth in KFC's domestic sales was primarily due to

additional units and a reduced level of price promotions. Profits declined reflecting the higher cost of the pre-prepared Skinfree Crispy chicken product and increased store operating costs and administrative expenses, partially offset by the reduced level of price promotions and additional units. Same store sales were about even with 1990 though volume declined.

KFC's international sales and profits posted double-digit growth, driven by additional units in Canada and Australia, higher volumes led by Mexico and growth in franchise royalty revenues. Partially offsetting these profit advances were higher store operating costs and administrative expenses that exceeded increased prices.

KFC's worldwide profits included amortization of intangible assets of \$17 million in 1991 and \$12 million in 1990, with the increase reflecting acquisitions of domestic and international franchisees. The worldwide profit margin, excluding the 1991 and 1990 unusual charges, fell nearly two points to 6.7% primarily due to lower domestic profits.



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Financial Review



Management's Analysis — Overview

To facilitate understanding of PepsiCo's financial results, the various components of "Management's Analysis" are presented near the pertinent data. In addition to this overview discussion, separate analyses of the results of operations, financial condition and cash flows appear on pages 31, 33 and 35, respectively. The analysis of each industry segment's net sales and operating profit performance begins on pages 9, 14 and 20.

PepsiCo's principal objective is to increase the value of its shareholders' investment through integrated operating, investing and financing strategies that seek to maximize cash flows. These strategies are continually fine-tuned to address the opportunities and risks of the global marketplace.

Marketplace Actions

PepsiCo's domestic and international businesses operate in markets that are highly competitive and subject to local economic influences such as inflation, commodity price fluctuations and governmental actions. In the U.S., for example, new economic policies targeted at reducing the federal budget deficit may result in higher taxes. Additionally, many of PepsiCo's markets continue to be affected by recessionary pressures. PepsiCo's operating and investing strategies are designed to mitigate these factors through aggressive actions on several fronts including: (a) enhancing the appeal and value of its products through brand promotion, product innovation, quality improvement and prudent pricing actions, (b) providing better service to customers, (c) increasing worldwide availability of its products, (d) acquiring businesses and forming alliances to increase market presence and utilize resources more efficiently and (e) containing costs through more efficient and effective purchasing, manufacturing, distribution and administrative processes.

Restructurings

Restructuring actions, such as those taken in all three industry segments within the last two years and which may be taken in future years, reflect PepsiCo's willingness to change in anticipation of marketplace trends. These actions are intended to realign resources for more effective and efficient execution of operating strategies. The resulting cost savings help fund activities to enhance PepsiCo's competitive positions throughout the world. For example, restructurings in PepsiCo's beverage and international snack food segments, announced in 1992 and now underway, resulted in charges totaling \$193.5 million (\$128.5 million after-tax or \$0.16 per share). When completed, these actions are expected to generate annual cost savings of approximately \$160 million pretax. These savings relate primarily to headcount reductions. See "Business Segments" on page 28 for detail of restructuring charges and other unusual items over the last three years.

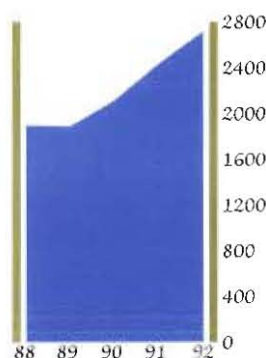
Cost of Capital

The cost of capital is a key measure in setting PepsiCo's investing and financing strategies. The cost of capital is a weighting of cost of debt and cost of equity, with the latter representing a measure of expected return to investors in PepsiCo's stock. PepsiCo seeks investments that generate cash returns in excess of its cost of capital, which is currently estimated to be approximately 11%. Financial leverage, which refers to the management of the debt and equity structure, is utilized by PepsiCo to optimize the overall cost of capital, considering the favorable tax treatment of debt. Prudent use of leverage, combined with PepsiCo's strong cash generating capability, provides the flexibility to continue to invest in the business without significantly affecting PepsiCo's overall cost of debt. PepsiCo's strong financial condition provides continued access to capital markets throughout the world.

Currency Exchange Effects

In 1992, international businesses represented 19% of PepsiCo's total segment operating profits, excluding unusual items. Operating in international markets involves risks associated with volatility of currency exchange rates. When appropriate, PepsiCo engages in hedging activities to minimize cash flow transaction exposures. In implementing financing strategies, transaction exposures related to debt are considered along with interest rates to measure effective financing costs. PepsiCo believes its translation exposure related to net income is not material because of its diversified mix of international businesses. For PepsiCo's key international operations, located in Australia, Canada, Japan, Mexico, Spain and the United Kingdom (U.K.), the translation effects of exchange rate movements on net income in recent years have been largely offsetting. As its international operations continue to expand, PepsiCo intends to closely monitor its currency risks and take prudent actions when appropriate to minimize exposures. Net foreign exchange pretax losses included in the Consolidated Statement of Income totaled \$17.4 million, \$7.8 million and \$9.5 million in 1992, 1991 and 1990, respectively. These amounts consist of the effects of remeasurement into U.S. dollars of the net assets of businesses in hyperinflationary countries and net transaction gains and losses.

Net Cash Provided
By Continuing Operations
(\$ In Millions)



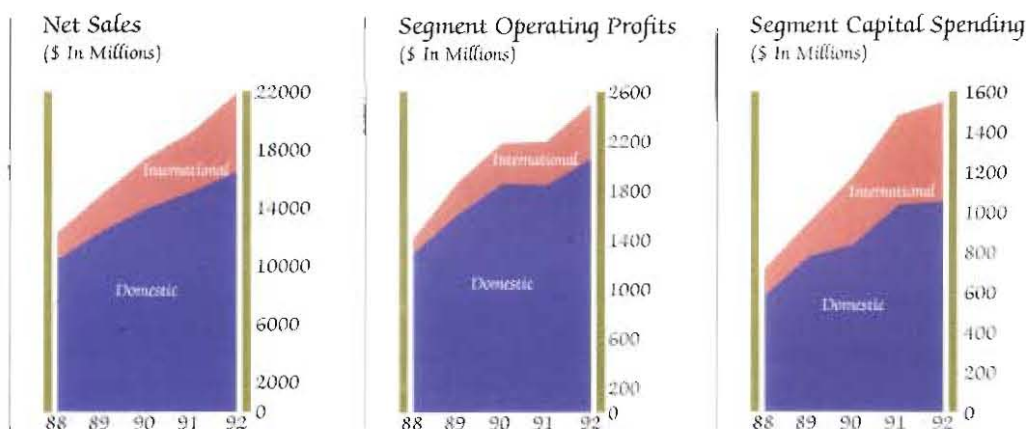
Accounting Changes

PepsiCo's 1992 financial statements were significantly impacted by the early adoption of two new required Statements of Financial Accounting Standards, "Employers' Accounting for Postretirement Benefits Other Than Pensions" (SFAS 106) and "Accounting for Income Taxes" (SFAS 109). The cumulative effect of adopting SFAS 106, a \$575.3 million charge (\$356.7 million after-tax or \$0.44 per share), represents estimated future retirement benefit costs related to services provided by employees prior to 1992. The adoption of SFAS 106 resulted in incremental expense related to 1992 of \$52.1 million (\$32.3 million after-tax or \$0.04 per share). Because of recent amendments to PepsiCo's retiree benefits plans, the related expense for 1993 is expected to decline by \$40 million. See Note 11 for additional details regarding the adoption of SFAS 106.

The cumulative effect of adopting SFAS 109, a \$570.7 million charge (\$0.71 per share), primarily represents the recognition of deferred tax liabilities related to identifiable intangible assets, principally acquired trademarks and reacquired franchise rights, included in PepsiCo's balance sheet as of the end of 1991. The adoption of SFAS 109 resulted in incremental pretax expense related to 1992 of \$20.7 million, but reduced the provision for income taxes by \$33.7 million, resulting in a \$13.0 million increase in net income (\$0.02 per share). The impact on 1993 net income should be roughly the same as 1992 assuming no change in enacted tax rates or other unusual events. The adoption of SFAS 109 reduced PepsiCo's effective income tax rate primarily because tax benefit is recognized for financial accounting purposes for all amortization of identifiable intangibles, regardless of deductibility for tax purposes. See Note 14 for additional details regarding the adoption of SFAS 109.

The adoption of SFAS 106 and SFAS 109 has no impact on PepsiCo's cash flows. The adoption of SFAS 106 resulted in the recognition of a previously existing liability that will be paid in the future. The adoption of SFAS 109 resulted in the recognition of tax liabilities that would be paid in the unlikely event the related identifiable intangible assets were sold.

Late in 1992, the Financial Accounting Standards Board issued new rules for postemployment benefits other than to retirees. (See Note 13.)



Business Segments

This information constitutes Notes 2 and 3 to the Consolidated Financial Statements. (dollars in millions except per share amounts)

PepsiCo operates on a worldwide basis within three industry segments: beverages, snack foods and restaurants. The beverage segment markets Pepsi, Diet Pepsi, Mountain Dew and other brands worldwide and 7UP outside the U.S. The segment manufactures concentrates sold to franchised bottlers worldwide and operates bottling plants located principally in the U.S. and Canada. The snack food segment manufactures and markets snack chips worldwide, with Frito-Lay representing the domestic business. The international snack food business includes major operations in Mexico, the U.K. and Canada. The restaurant segment includes operations of the worldwide Pizza Hut, Taco Bell and KFC chains. PFS, PepsiCo's restaurant distribution operation, supplies principally domestic company-owned and franchised restaurants. Included in the net sales and operating profits for each chain are the franchisee operations of PFS. "Interest and Other Corporate Expenses, net" includes interest expense, interest income, equity in net income of affiliates, foreign exchange gains and losses and other corporate items that are not allocated to the business segments. "Corporate Assets" consists principally of short-term investments held outside the U.S. and investments in affiliates.

To improve comparability, the 1991 and 1990 net sales and operating profits for international snack foods have been restated to exclude the results of certain previously consolidated businesses, which were contributed to the new Snack Ventures Europe (SVE) joint venture with General Mills, Inc., and equity in net income of

affiliates has been restated to include 100% of the net income of these businesses. (See Note 1.) The restatement reduced net sales for 1991 and 1990 by \$315.7 and \$287.2, operating profits by \$30.9 and \$41.8 and net corporate expenses by \$20.3 and \$28.2, respectively.

PepsiCo has invested in about 50 joint ventures, principally international and all within PepsiCo's three industry segments, in which it exercises significant influence but not control. Equity in net income of these affiliates, which includes the two unusual charges noted below, was \$40.1, \$32.2 and \$30.1 in 1992, 1991 and 1990, respectively. International snack food affiliates, which represented the largest component of equity in net income of affiliates, contributed \$23.2, \$20.5 and \$26.9 in 1992, 1991 and 1990, respectively. Dividends received from affiliates totaled \$29.6, \$32.6 and \$17.8 in 1992, 1991 and 1990, respectively.

PepsiCo's investments in affiliates totaled \$905 at year-end 1992 and \$1.1 billion at both year-end 1991 and 1990. The decline in 1992 primarily reflected the consolidation of two international snack food affiliates, due to securing a controlling interest in the Gamesa cookie joint venture (Mexico) and buying out PepsiCo's joint venture partner in Hostess Frito-Lay (Canada). This activity was partially offset by a \$96 investment in a domestic mid-scale gourmet pizza business and the investment in the SVE joint venture with a carrying value of \$87. (See Note 5.) Other significant investments in affiliates at year-end 1992 included \$216 in a domestic franchised bottler and \$129 in the KFC Japan joint venture. The level of both of these investments has not changed materially over the last three years.

Net Unusual Charges and Impact of Accounting Changes

Net Unusual Charges

Profits for the years presented in the tabular data on page 29 include several restructuring and other unusual charges and a nonoperating gain, resulting in a 1992 total charge of \$193.5 (\$128.5 after-tax or \$0.16 per share), a 1991 total charge of \$170.0 (\$119.8 after-tax or \$0.15 per share) and a 1990 net credit of \$35.2 (\$4.2 charge after-tax or \$0.01 per share).

Beverages: 1992 includes \$145.0 in charges consisting of \$115.4 to reorganize and streamline domestic operations, and \$29.6 to streamline a recently acquired franchised bottling business in Spain and other international field operations. 1990 includes \$10.5 in charges for domestic trade receivables exposures.

Snack Foods: 1992 includes a \$40.3 charge principally to consolidate the Smiths and Walkers businesses in the U.K. 1991 includes \$127.0 in charges consisting of \$91.4 to streamline domestic operations, \$23.6 to streamline operations in the U.K. and \$12.0 to dispose of a small international business. 1990 includes \$10.6 in charges for domestic trade receivables exposures.

Restaurants: 1991 includes \$43.0 in charges at KFC consisting of \$34.0 (\$1.2 for international) to streamline operations and \$9.0 related to a delay in the U.S. roll-out of a new product. 1990 includes a \$17.6 charge for closures of underperforming units

as follows: \$9.0 at Pizza Hut, \$4.0 at Taco Bell and \$4.6 (\$0.6 for international) at KFC. 1990 also includes Pizza Hut charges of \$8.0 to consolidate domestic field operations and \$2.4 to relocate international headquarters.

Corporate: 1992 includes an \$8.2 charge to streamline operations of the SVE joint venture. 1990 includes a \$118.2 gain from an initial public stock offering by PepsiCo's KFC joint venture in Japan, an \$18.0 charge for accelerated contributions to the PepsiCo Foundation and a \$15.9 charge to reduce the carrying value of a Pizza Hut international joint venture investment.

Impact of Accounting Changes

In addition to the cumulative effect impacts, the adoption of SFAS 106 and SFAS 109 affected 1992 profits presented in the tabular data on page 29. SFAS 106 reduced profits by \$52.1 (\$32.3 after-tax or \$0.04 per share), decreasing beverage, snack food and restaurant profits by \$16.1, \$28.2 and \$6.1 (almost all domestic), respectively, and increasing corporate expenses by \$1.7. SFAS 109 reduced profits by \$20.7 (\$13.0 credit after-tax or \$0.02 per share), decreasing beverage, snack food and restaurant profits by \$6.3, \$2.6 and \$9.3, respectively, and increasing corporate expenses by \$2.5. (See Notes 11 and 14.)

Industry Segments:		Net Sales			Operating Profits			Identifiable Assets ^(a)		
		1992	1991	1990	1992	1991	1990	1992	1991	1990
Beverages:	Domestic	\$ 5,485.2	\$ 5,171.5	\$ 5,034.5	\$ 686.3	\$ 746.2	\$ 673.8			
	International	2,120.4	1,743.7	1,488.5	112.3	117.1	93.8			
		7,605.6	6,915.2	6,523.0	798.6	863.3	767.6	\$ 7,857.5	\$ 6,832.6	\$ 6,465.2
Snack Foods:	Domestic	3,950.4	3,737.9	3,471.5	775.5	616.6	732.3			
	International	2,181.7	1,512.2	1,295.3	209.2	140.1	160.3			
		6,132.1	5,250.1	4,766.8	984.7	756.7	892.6	4,628.0	4,114.3	3,892.4
Restaurants:	Domestic	7,115.4	6,258.4	5,540.9	597.8	479.4	447.2			
	International	1,116.9	868.5	684.8	120.7	96.2	75.2			
		8,232.3	7,126.9	6,225.7	718.5	575.6	522.4	5,097.1	4,254.2	3,448.9
Total:	Domestic	16,551.0	15,167.8	14,046.9	2,059.6	1,842.2	1,853.3			
	International	5,419.0	4,124.4	3,468.6	442.2	353.4	329.3			
		\$21,970.0	\$19,292.2	\$17,515.5	\$2,501.8	\$2,195.6	\$2,182.6	\$17,582.6	\$15,201.1	\$13,806.5

Geographic Areas^(b):

United States	\$16,551.0	\$15,167.8	\$14,046.9	\$2,059.6	\$1,842.2	\$1,853.3	\$11,957.0	\$10,777.8	\$ 9,980.7
Canada and Mexico	2,214.2	1,434.7	1,089.2	251.0	198.7	164.2	2,395.2	917.3	689.5
Europe	1,349.0	1,170.3	1,057.5	52.6	30.9	66.7	1,948.4	2,367.3	2,255.2
Other	1,855.8	1,519.4	1,321.9	138.6	123.8	98.4	1,282.0	1,138.7	881.1
							17,582.6	15,201.1	13,806.5
Corporate Assets							3,368.6	3,574.0	3,336.9
Total	\$21,970.0	\$19,292.2	\$17,515.5	2,501.8	2,195.6	2,182.6	\$20,951.2	\$18,775.1	\$17,143.4

Interest and Other Corporate Expenses, net

(603.0) (535.9) (528.8)

Income from Continuing Operations Before Income Taxes and Cumulative Effect of Accounting Changes

\$1,898.8 \$1,659.7 \$1,653.8

	Capital Spending ^(a)			Depreciation and Amortization Expense ^(a)		
	1992	1991	1990	1992	1991	1990
Beverages	\$ 343.7	\$ 425.8	\$ 334.1	\$ 456.9	\$393.2	\$338.1
Snack Foods	446.2	406.0	381.6	291.7	253.5	232.5
Restaurants	757.2	648.4	460.6	456.2	379.6	306.5
Corporate	18.0	4.1	21.9	10.1	8.2	6.9
	\$1,565.1	\$1,484.3	\$1,198.2	\$1,214.9	\$1,034.5	\$884.0

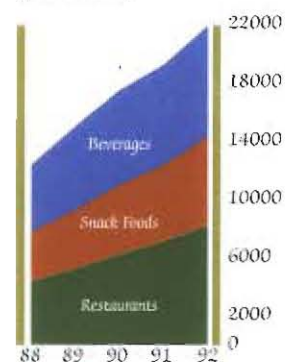
Results by Restaurant Chain:

	Net Sales			Operating Profits		
	1992	1991	1990	1992	1991	1990
Pizza Hut	\$3,603.5	\$3,258.3	\$2,949.9	\$335.4	\$314.5	\$245.9
Taco Bell	2,460.0	2,038.1	1,745.5	214.3	180.6	149.6
KFC	2,168.8	1,830.5	1,530.3	168.8	80.5	126.9
	\$8,232.3	\$7,126.9	\$6,225.7	\$718.5	\$575.6	\$522.4

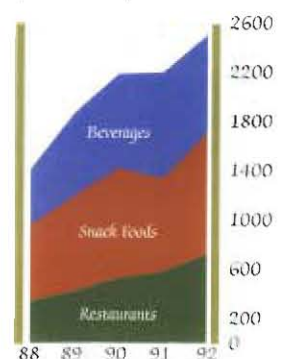
(a) Due to immateriality, identifiable assets, capital spending and depreciation and amortization expense were not restated for certain previously consolidated international snack food businesses contributed to the new SVE joint venture. (See Note 1.)

(b) The results of centralized concentrate manufacturing operations in Puerto Rico and Ireland have been allocated based upon sales to the respective areas.

Net Sales
(\$ In Millions)



Segment Operating Profits
(\$ In Millions)



Consolidated Statement of Income

(in millions except per share amounts)

PepsiCo, Inc. and Subsidiaries

Fifty-two weeks ended December 26, 1992, December 28, 1991 and December 29, 1990

	1992	1991	1990
Net Sales	\$21,970.0	\$19,292.2	\$17,515.5
Costs and Expenses, net			
Cost of sales	10,492.6	9,278.6	8,442.6
Selling, general and administrative expenses	8,840.3	7,693.5	6,842.1
Amortization of intangible assets	265.9	208.3	188.7
Gain on joint venture stock offering	—	—	(118.2)
Interest expense	586.1	613.7	686.0
Interest income	(113.7)	(161.6)	(179.5)
	<u>20,071.2</u>	<u>17,632.5</u>	<u>15,861.7</u>
Income from Continuing Operations Before Income Taxes and Cumulative Effect of Accounting Changes	1,898.8	1,659.7	1,653.8
Provision for Income Taxes	597.1	579.5	563.2
Income from Continuing Operations Before Cumulative Effect of Accounting Changes	1,301.7	1,080.2	1,090.6
Discontinued Operation Charge (net of income tax benefit of \$0.3)	—	—	(13.7)
Cumulative Effect of Change in Accounting for Postretirement Benefits Other Than Pensions (net of income tax benefit of \$218.6)	(356.7)	—	—
Cumulative Effect of Change in Accounting for Income Taxes	(570.7)	—	—
Net Income	\$ 374.3	\$ 1,080.2	\$ 1,076.9
Income (Charge) Per Share			
Continuing operations before cumulative effect of accounting changes	\$ 1.61	\$ 1.35	\$ 1.37
Discontinued operation	—	—	(0.02)
Cumulative effect of change in accounting for postretirement benefits other than pensions	(0.44)	—	—
Cumulative effect of change in accounting for income taxes	(0.71)	—	—
Net Income Per Share	\$ 0.46	\$ 1.35	\$ 1.35
Average shares outstanding used to calculate income (charge) per share	806.7	802.5	798.7

See accompanying Notes to Consolidated Financial Statements.

Management's Analysis — Results of Operations

(See "Management's Analysis — Overview" on page 26.)

The adoption of new accounting rules for retiree health benefits (SFAS 106) and income taxes (SFAS 109) resulted in cumulative effects of accounting changes that represent the impact of adoption related to years prior to 1992, and also resulted in effects related to 1992 results (see Notes 11 and 14). In addition, income for the years presented included restructuring and other unusual charges (see "Business Segments" on page 28) as well as the gain on joint venture stock offering (see below). These effects, combined with the impacts of SFAS 106 and SFAS 109 related to 1992, are collectively referred to as "the unusual items."

Net Sales rose 14% in 1992, driven by acquisitions of international snack food businesses and domestic and international franchised bottling operations as well as additional restaurant units (constructed and acquired from franchisees). The sales increase also reflects volume gains, driven by domestic snack foods, and higher pricing led by worldwide beverages. Sales rose 10% in 1991, driven by additional restaurant units and volume growth in worldwide snack foods and restaurants. Sales growth was also aided by acquisitions of domestic and international franchised bottling operations and increased international pricing that was partially offset by lower net prices in domestic restaurants. International sales represented 25%, 21% and 20% of total sales in 1992, 1991 and 1990, respectively, reflecting double-digit growth in all three industry segments in 1992 and 1991. The trend of an increasing international component of sales and operating profits is expected to continue.

Cost of sales as a percentage of net sales was 47.8%, 48.1% and 48.2% in 1992, 1991 and 1990, respectively. The 1992 decrease was driven by the beverage segment, reflecting higher worldwide pricing and lower domestic ingredient and packaging costs. In 1991, the impact in beverages of higher concentrate pricing and lower domestic ingredient costs was largely offset in snack foods by a higher rate of manufacturing cost increases than international price advances.

Selling, general and administrative expenses rose 15% in 1992 and 12% in 1991. The unusual items accounted for one point of the growth in both years. The 1992 increase was driven by higher selling and distribution expenses that reflected acquisitions, additional restaurant units and volume growth. The increase also reflected increased marketing expenses due to higher spending in line with business growth as well as acquisitions. In 1991, higher sales volumes, increased marketing expenses and the impact of additional restaurant units led the increase.

Amortization of intangible assets rose 28% in 1992 and 10% in 1991 due primarily to acquisition activity. Of the \$58 million increase in 1992, \$17 million was due to the adoption of the new income tax accounting rules. (See Note 14.) The per share impact of amortization of intangible assets was \$0.24, \$0.22 and \$0.20 in 1992, 1991 and 1990, respectively. The 1992 increase was mitigated by the incremental tax benefit of \$35 million recognized on nondeductible amortization of identifiable intangibles, in accordance with these new accounting rules.

Gain on joint venture stock offering of \$118.2 million relates to the 1990 initial public offering of shares of PepsiCo's KFC joint venture in Japan. (See Note 17.)

Interest expense decreased 4% in 1992 and 11% in 1991. The decrease in both years reflected lower average interest rates, partially offset by higher average domestic borrowings related to acquisition activity.

Interest income decreased 30% in 1992 and 10% in 1991. In both years, lower average interest rates were partially offset by higher average short-term investment balances held outside the U.S.

Income from Continuing Operations Before Income Taxes and Cumulative Effect of Accounting Changes ("pretax income") increased 14% in 1992 and was even in 1991. The following discussion excludes the impact of the unusual items. Pretax income increased 18% in 1992 and 13% in 1991, driven by combined segment operating profit growth of 16% in 1992 and 6% in 1991. The change in pretax income also reflected higher net interest expense in 1992 and lower net interest expense in 1991. The 1992 segment operating profit growth, reflecting double-digit growth in all three business segments, was primarily due to volume growth in domestic snack foods, additional restaurant units and international snack food acquisitions. The benefit in international operations of higher prices that exceeded increases in operating costs also aided profit growth. In 1991, the segment operating profit growth was driven by higher volumes and additional restaurant units, partially offset by operating expense increases in excess of higher pricing. International operating profits, which represented 19%, 16% and 15% of combined segment operating profits in 1992, 1991 and 1990, respectively, grew at double-digit rates in all three segments in 1992 and 1991. The growth in international profits in 1992 reflected snack food acquisitions, higher prices that exceeded cost increases and additional restaurant units. The increase in 1991 represented base business growth.

Provision for Income Taxes as a percentage of pretax income was 31.4%, 34.9% and 34.1% in 1992, 1991 and 1990, respectively. Excluding the impact of the adoption of the new income tax accounting rules in 1992, and the unusual tax effects on the restructuring charge at international snack foods in 1991, the gain on joint venture stock offering and the write-down of an international joint venture, both in 1990, the effective rates were 32.9%, 34.2% and 32.1%, respectively. The decrease in 1992 was due primarily to lower effective rates on higher foreign income as well as the resolution of various audits. The increase in 1991 was due primarily to higher taxes on foreign income.

Income and Income Per Share from Continuing Operations Before Cumulative Effect of Accounting Changes ("income" and "income per share") in 1992 increased 21% to \$1.3 billion and 19% to \$1.61, respectively, and declined 1% to \$1.08 billion and \$1.35, respectively, in 1991. Excluding the unusual items, income and income per share rose 21% and 20% in 1992 and grew 10% and 9% in 1991, respectively.

Consolidated Balance Sheet

(in millions except per share amount)

PepsiCo, Inc. and Subsidiaries

December 26, 1992 and December 28, 1991

	1992	1991
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 169.9	\$ 186.7
Short-term investments, at cost	1,888.5	1,849.3
	<u>2,058.4</u>	<u>2,036.0</u>
Accounts and notes receivable, less allowance: \$112.0 in 1992 and \$97.5 in 1991	1,588.5	1,481.7
Inventories	768.8	661.5
Prepaid expenses, taxes and other current assets	426.6	386.9
Total Current Assets	<u>4,842.3</u>	<u>4,566.1</u>
Investments in Affiliates and Other Assets	1,707.9	1,681.9
Property, Plant and Equipment, net	7,442.0	6,594.7
Intangible Assets, net	6,959.0	5,932.4
Total Assets	<u>\$20,951.2</u>	<u>\$18,775.1</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Short-term borrowings	\$ 706.8	\$ 228.2
Accounts payable	1,164.8	1,196.6
Income taxes payable	387.9	492.4
Accrued compensation and benefits	638.9	539.7
Accrued marketing	327.0	333.8
Other current liabilities	1,099.0	931.4
Total Current Liabilities	<u>4,324.4</u>	<u>3,722.1</u>
Long-term Debt	7,964.8	7,806.2
Other Liabilities	1,624.0	631.3
Deferred Income Taxes	1,682.3	1,070.1
Shareholders' Equity		
Capital stock, par value 1 2/3¢ per share: authorized 1,800.0 shares, issued 863.1 shares	14.4	14.4
Capital in excess of par value	667.6	476.6
Retained earnings	5,439.7	5,470.0
Currency translation adjustment	(99.0)	330.3
	<u>6,022.7</u>	<u>6,291.3</u>
Less: Treasury stock, at cost: 64.3 shares in 1992, 74.0 shares in 1991	(667.0)	(745.9)
Total Shareholders' Equity	<u>5,355.7</u>	<u>5,545.4</u>
Total Liabilities and Shareholders' Equity	<u>\$20,951.2</u>	<u>\$18,775.1</u>

See accompanying Notes to Consolidated Financial Statements.

Management's Analysis — Financial Condition

(See "Management's Analysis — Overview" on page 26.)

Assets increased \$2.2 billion or 12% over 1991, reflecting purchases of property, plant and equipment (capital spending), acquisitions, the impact of SFAS 109 and base business growth.

Short-term investments substantially represent high-grade marketable securities portfolios held outside the U.S. The portfolio in Puerto Rico, which totaled \$1.5 billion at year-end 1992 and 1991, arises from the strong operating cash flows of the centralized concentrate manufacturing facilities that operate there under a tax incentive grant. The grant provides that the portfolio funds may be remitted to the U.S. without any additional tax. In 1992, PepsiCo remitted \$360 million of the portfolio to the U.S. In 1991, \$500 million of the portfolio was liquidated, with a portion used to refinance an international investment and the remainder remitted to the U.S. PepsiCo continually reassesses its alternatives to redeploy this and other portfolios held outside the U.S., considering other investment opportunities, tax consequences and overall financing strategies.

Inventories increased \$107 million or 16%, primarily reflecting acquisitions of international snack food businesses. The \$40 million or 10% increase in prepaid expenses, taxes and other current assets was due principally to higher deferred tax assets.

Capital spending totaled \$1.6 billion in 1992 and \$1.5 billion in 1991, with the increase driven by new restaurant units, which represented about half of the 1992 and 1991 spending. Declines in 1992 capital spending in worldwide beverages and domestic snack foods were partially offset by an increase in international snack foods.

Intangible assets increased \$1.0 billion or 17% over 1991, reflecting a \$511 million "gross-up" of reacquired franchise rights under SFAS 109. The increase also reflected acquisition activity, partially offset by amortization and the translation impact of a stronger U.S. dollar on the intangibles in the U.K.

Liabilities rose \$2.4 billion or 18% over 1991, reflecting the impacts of SFAS 106 and SFAS 109 and an increase in total debt.

Income taxes payable declined \$105 million or 21%, reflecting timing of payments as well as cash tax benefits to be received associated with stock option exercises. Accrued compensation and benefits rose \$99 million or 18%, reflecting higher payroll-related accruals and the current portion of the retiree health benefits liability under SFAS 106. The increase in other current liabilities of \$168 million or 18% was led by increases in restructuring accruals.

The \$637 million or 8% increase in total short-term and long-term debt partially funded investing and other financing activities. PepsiCo's unused credit facilities with lending institutions, which exist largely to support the issuances of short-term borrowings, were \$3.5 billion at year-end 1992 and 1991. This amount of short-term borrowings was classified as long-term at year-end 1992 and 1991, reflecting PepsiCo's intent and ability, through the existence of the credit facilities, to refinance these borrowings.

Other liabilities increased \$1.0 billion or 157%, including a \$610 million retiree health benefits liability under SFAS 106. Deferred income taxes rose \$612 million or 57%, primarily reflecting the \$571 million SFAS 109 cumulative effect and the

\$511 million "gross-up" of intangible assets, partially offset by the \$219 million deferred tax asset associated with the cumulative effect of adopting SFAS 106.

Financial Leverage refers to the management of the debt and equity structure. PepsiCo measures leverage on a net basis, which takes into account its large short-term investment portfolios held outside the U.S. These portfolios are managed as part of PepsiCo's overall financing strategy and are not required to support day-to-day operations. Therefore, PepsiCo believes its net debt position, which reflects the pro forma remittance of the portfolios (net of related taxes) as a reduction of total debt, is the most meaningful historical cost measure of financial leverage used in its business. PepsiCo's ratio of net debt to net capital employed (defined as net debt, other liabilities, deferred income taxes and shareholders' equity) was 45% at year-end 1992 and 47% at year-end 1991. The decline in the ratio was due to a 15% increase in net capital partially offset by a 9% increase in net debt.

PepsiCo also measures financial leverage on a market value basis. Management believes that market leverage (defined as net debt as a percent of net debt plus the market value of equity, based on the year-end stock price) better measures PepsiCo's financial leverage from the perspective of investors in its securities, as it reflects the portion of the current value of PepsiCo that is financed with debt. Unlike historical cost measures, the market value of equity is based primarily on the expected future cash flows that will both support debt and provide returns to shareholders. The market net debt ratio was 17% at year-end 1992 and 19% at year-end 1991. The decline in the ratio was due to a 25% increase in PepsiCo's stock price, partially offset by the 9% increase in net debt. PepsiCo has established a target range for its market net debt ratio of 20-25%. PepsiCo believes that it can safely exceed this range on a short-term basis to take advantage of strategic acquisition opportunities.

PepsiCo's negative operating working capital position, which principally reflects the cash sales nature of its restaurant operations, effectively provides additional capital for investment. Operating working capital, which excludes short-term investments and short-term borrowings, was a negative \$664 million and \$777 million at year-end 1992 and 1991, respectively. The decline principally reflects the \$105 million decrease in income taxes payable.

Shareholders' Equity declined \$190 million or 3% from 1991, primarily due to a \$429 million decrease in the currency translation adjustment and \$405 million in dividends declared, partially offset by net income of \$374 million and a \$298 million impact of treasury stock issuances for acquisitions and stock option exercises. The decrease in the currency translation adjustment was principally due to the impact of a stronger U.S. dollar on the translation of the net assets (principally intangible assets) of operations in the U.K.

Based on income from continuing operations before cumulative effect of accounting changes, PepsiCo's return on average shareholders' equity was 23.9% in 1992 and 20.7% in 1991. The return on average shareholders' equity was 24.0% in 1992 and 22.7% in 1991, excluding from both income and shareholders' equity the impact of the 1992 and 1991 unusual charges as well as the cumulative effect and 1992 impact of the accounting changes.

Consolidated Statement of Cash Flows

(in millions)

PepsiCo, Inc. and Subsidiaries

Fifty-two weeks ended December 26, 1992, December 28, 1991 and December 29, 1990

	1992	1991	1990
Cash Flows — Continuing Operations:			
Income from continuing operations before cumulative effect of accounting changes	\$1,301.7	\$1,080.2	\$1,090.6
Adjustments to reconcile income from continuing operations before cumulative effect of accounting changes to net cash provided by continuing operations:			
Depreciation and amortization	1,214.9	1,034.5	884.0
Deferred income taxes	(52.0)	98.0	86.4
Gain on joint venture stock offering	—	—	(118.2)
Other noncash charges and credits, net	315.6	227.2	120.3
Changes in operating working capital, excluding effect of acquisitions:			
Accounts and notes receivable	(45.7)	(55.9)	(124.8)
Inventories	(11.8)	(54.8)	(20.9)
Prepaid expenses, taxes and other current assets	(27.4)	(75.6)	(41.9)
Accounts payable	(102.0)	57.8	25.4
Income taxes payable	(16.9)	(3.4)	136.3
Other current liabilities	135.2	122.3	72.8
Net change in operating working capital	(68.6)	(9.6)	46.9
Net Cash Provided by Continuing Operations	2,711.6	2,430.3	2,110.0
Cash Flows — Investing Activities:			
Acquisitions and investments in affiliates	(1,209.7)	(640.9)	(630.6)
Purchases of property, plant and equipment	(1,549.6)	(1,457.8)	(1,180.1)
Proceeds from sales of property, plant and equipment	89.0	69.6	45.3
Short-term investments, by original maturity:			
More than three months — purchases	(1,174.8)	(1,849.2)	(2,093.2)
More than three months — sales	1,371.8	1,873.2	2,139.4
Three months or less, net	(249.4)	(164.9)	(228.0)
Proceeds from joint venture stock offering	—	—	129.6
Other, net	(30.8)	(105.8)	(119.7)
Net Cash Used for Investing Activities	(2,753.5)	(2,275.8)	(1,937.3)
Cash Flows — Financing Activities:			
Proceeds from issuances of long-term debt	1,092.7	2,799.6	777.3
Payments of long-term debt	(616.3)	(1,348.5)	(298.0)
Short-term borrowings, by original maturity:			
More than three months — proceeds	911.2	2,551.9	4,041.9
More than three months — payments	(2,062.6)	(3,097.4)	(2,647.4)
Three months or less, net	1,075.3	(467.1)	(1,480.7)
Cash dividends paid	(395.5)	(343.2)	(293.9)
Purchases of treasury stock	(32.0)	(195.2)	(147.7)
Proceeds from exercises of stock options	82.8	15.8	9.3
Other, net	(30.9)	(47.0)	(37.9)
Net Cash Provided by (Used for) Financing Activities	24.7	(131.1)	(77.1)
Effect of Exchange Rate Changes on Cash and Cash Equivalents	0.4	(7.5)	(1.0)
Net Increase (Decrease) in Cash and Cash Equivalents	(16.8)	15.9	94.6
Cash and Cash Equivalents — Beginning of Year	186.7	170.8	76.2
Cash and Cash Equivalents — End of Year	\$ 169.9	\$ 186.7	\$ 170.8

See accompanying Notes to Consolidated Financial Statements, including Note 4 — Supplemental Cash Flow Information.

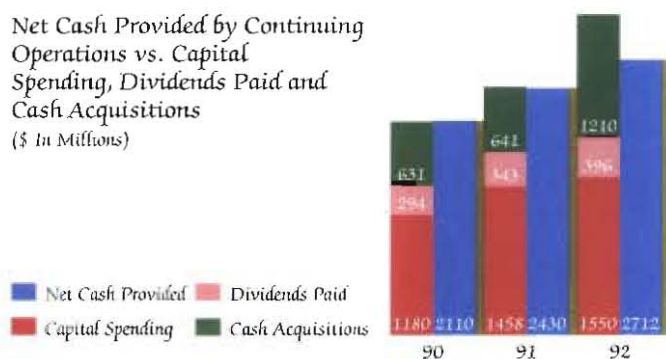
Management's Analysis — Cash Flows

(See "Management's Analysis — Overview" on page 26.)

Cash flow activity in 1992 reflected strong cash flows from continuing operations of \$2.7 billion and net proceeds of \$400 million from debt issuances and payments. Major funding needs included capital spending of \$1.5 billion, acquisition and affiliate investment activity of \$1.2 billion and dividends of \$396 million.

One of PepsiCo's most significant financial strengths is its internal cash generation capability. In 1992, cash flows generated, after capital spending and acquisitions, in the snack food and beverage segments were partially offset by a cash use in the restaurant segment that reflected funding of additional units, both constructed and acquired from franchisees. Net cash flows from PepsiCo's domestic businesses were partially offset by international uses of cash, reflecting strategies to accelerate growth in international operations. As the chart below illustrates, over the last three years, net cash provided by continuing operations substantially funded capital spending, dividend payments and cash acquisition and affiliate investment activity.

Net Cash Provided by Continuing Operations vs. Capital Spending, Dividends Paid and Cash Acquisitions
(\$ in Millions)



Net Cash Provided by Continuing Operations in 1992 rose \$281 million or 12% over 1991, driven by higher income, and in 1991 grew \$320 million or 15% over 1990. The increases in depreciation and amortization noncash charges of \$180 million in 1992 and \$151 million in 1991 reflected capital spending and acquisitions. The 1992 decline of \$150 million in the deferred income tax provision was primarily due to the impact of SFAS 106 and SFAS 109, higher restructuring accruals and lower prefunding of employee benefit expenses. The other net noncash charges and credits reflect increased accruals of noncurrent liabilities in 1992 and 1991. The comparison of the 1992 net change in operating working capital to 1991 reflects normal changes in most accounts with the net change, driven by accounts payable, due primarily to timing of year-end payments, partially offset by the impact on prepaid expenses of the lower prefunding of employee benefits. The 1991 to 1990 comparison of operating working capital changes reflects the timing of income tax payments and higher prefunding of employee benefits, partially offset by modest growth in accounts receivable due to slower volume growth in domestic bottling operations as well as the impact of accrued restructuring charges.

Investing Activities over the past three years reflected strategic spending in all three industry segments through acquisitions, investments in affiliates and capital spending. Acquisition and affiliate investment activity in 1992 included cash and noncash (primarily treasury stock issuance) transactions of \$1.2 billion and \$190 million, respectively, and was led by acquisitions of international and domestic franchised bottling and restaurant operations. About 60% of the acquisitive activity in 1992 represented international transactions compared to 20% in 1991. Significant activity subsequent to year-end 1992 included the buyout of PepsiCo's joint venture partners in a franchised bottling operation in Spain and the related acquisition of their fruit-flavored beverage business for \$213 million in cash. High cost local currency debt assumed in the transaction of \$114 million will be retired in the first half of 1993. As of February 1993, completed and probable cash and stock acquisitions, including the above transaction, totaled approximately \$1 billion. PepsiCo continues to seek opportunities to strengthen its position in its domestic and international industry segments through such strategic acquisitions. Capital spending is expected to increase to approximately \$1.7 billion in 1993 from \$1.5 billion in 1992. About half of the 1993 amount is targeted for restaurants, led by new units, and the balance is evenly divided between beverages and snack foods, reflecting productive capacity expansion and maintenance. Approximately 30% of the planned 1993 capital spending relates to international businesses, about the same as 1992 and 1991.

Financing Activities resulted in an increase in net cash provided of \$156 million over 1991, principally reflecting a decline in purchases of treasury stock and an increase in proceeds from exercises of stock options, partially offset by higher payments of dividends and lower net proceeds from short and long-term debt issuances and payments. Payments of long-term debt in 1991 included retirement of a \$300 million nonrecourse obligation.

During 1992, PepsiCo issued \$1.7 billion of notes and used the proceeds to refinance short-term borrowings, which partially funded investing and other financing activities. Subsequent to year-end, PepsiCo issued \$425 million of notes through February 1993. All of the issuances were under a \$3.3 billion shelf registration statement filed with the Securities and Exchange Commission in December 1991. The amount available for future debt issuances under the shelf registration totaled \$1.2 billion as of February 1993. As a result of the refinancings and interest rate swap transactions, the amount of variable rate debt increased over last year, representing about half of PepsiCo's debt portfolio at year-end 1992.

Cash dividends declared were a record \$405 million in 1992 and \$363 million in 1991. PepsiCo targets a dividend payout of approximately one-third of the prior year's income, thus retaining sufficient earnings to provide financial resources for growth opportunities.

Share repurchase decisions are evaluated considering the target capital structure and other investment opportunities. In 1992, PepsiCo repurchased one million shares, all in the first quarter, at a cost of \$32 million. Including these repurchases, 21.8 million shares have been purchased under the 45 million share repurchase authority granted by PepsiCo's Board of Directors in 1987.

Consolidated Statement of Shareholders' Equity

(shares in thousands, dollars in millions except per share amounts)

PepsiCo, Inc. and Subsidiaries

Fifty-two weeks ended December 26, 1992, December 28, 1991 and December 29, 1990

	Capital Stock				Capital in Excess of Par Value	Retained Earnings	Currency Translation Adjustment	Total
	Issued		Treasury					
	Shares	Amount	Shares	Amount				
Shareholders' Equity, December 30, 1989 . . .	863,083	\$ 14.4	(72,026)	\$ (491.8)	\$ 323.9	\$ 3,978.4	\$ 66.2	\$ 3,891.1
1990 Net income						1,076.9		1,076.9
Cash dividends declared (per share-\$0.38)						(302.3)		(302.3)
Currency translation adjustment.							317.0	317.0
Purchases of treasury stock.			(6,310)	(147.7)				(147.7)
Shares issued in connection with acquisitions			2,013	16.3	30.1			46.4
Stock option exercises, including tax benefits, and compensation awards			1,072	7.8	9.1			16.9
Other, principally conversion of debentures			557	4.0	1.9			5.9
Shareholders' Equity, December 29, 1990 . . .	863,083	\$ 14.4	(74,694)	\$ (611.4)	\$ 365.0	\$ 4,753.0	\$ 383.2	\$ 4,904.2
1991 Net income						1,080.2		1,080.2
Cash dividends declared (per share-\$0.46)						(363.2)		(363.2)
Currency translation adjustment.							(52.9)	(52.9)
Purchases of treasury stock.			(6,392)	(195.2)				(195.2)
Shares issued in connection with acquisitions			5,613	46.7	95.0			141.7
Stock option exercises, including tax benefits, and compensation awards			1,446	13.6	16.4			30.0
Other, principally conversion of debentures			45	0.4	0.2			0.6
Shareholders' Equity, December 28, 1991 . . .	863,083	\$ 14.4	(73,982)	\$ (745.9)	\$ 476.6	\$ 5,470.0	\$ 330.3	\$ 5,545.4
1992 Net income						374.3		374.3
Cash dividends declared (per share-\$0.51)						(404.6)		(404.6)
Currency translation adjustment.							(429.3)	(429.3)
Purchases of treasury stock.			(1,000)	(32.0)				(32.0)
Shares issued in connection with acquisitions			4,265	44.2	115.3			159.5
Stock option exercises, including tax benefits, and compensation awards			6,333	65.5	75.5			141.0
Other, principally conversion of debentures			107	1.2	0.2			1.4
Shareholders' Equity, December 26, 1992	863,083	\$ 14.4	(64,277)	\$ (667.0)	\$ 667.6	\$ 5,439.7	\$ (99.0)	\$ 5,355.7

See accompanying Notes to Consolidated Financial Statements.

Notes to Consolidated Financial Statements

(tabular dollars in millions except per share amounts)

Note 1 — Summary of Significant Accounting Policies

Significant accounting policies are discussed below and, where applicable, in the Notes that follow.

Principles of Consolidation— The financial statements reflect the consolidated accounts of PepsiCo, Inc. and its controlled affiliates. Intercompany accounts and transactions have been eliminated. Investments in affiliates in which PepsiCo exercises significant influence but not control are accounted for by the equity method, and the equity in net income is included in "Selling, general and administrative expenses" in the Consolidated Statement of Income. The Consolidated Statement of Income for 1991 and 1990 has been restated to report under the equity method of accounting the results of previously consolidated snack food businesses in Spain, Portugal and Greece, which were contributed to a joint venture with General Mills, Inc. in late 1992. Although the equity interest and previously consolidated businesses are not significant to PepsiCo's Consolidated Financial Statements, the restatement is intended to improve the comparability of PepsiCo's operating results. The restatement had no effect on income from continuing operations before cumulative effect of accounting changes or net income. The Consolidated Balance Sheet and Statement of Cash Flows were not restated. Certain other reclassifications were made to prior year amounts to conform with the 1992 presentation.

Marketing Costs— Marketing costs are reported in "Selling, general and administrative expenses" in the Consolidated Statement of Income and include costs of advertising, marketing and promotional programs. Promotional discounts are expensed as incurred, and other marketing costs not deferred are charged to expense ratably in relation to sales over the year in which incurred. Marketing costs deferred consist of media and personal service advertising prepayments, materials in inventory and production costs of future media advertising; these assets are expensed in the year used.

Franchise Arrangements— Franchise arrangements with restaurant franchisees generally provide for initial fees and continuing royalty payments to PepsiCo based upon a percentage of sales. The arrangements are intended to assist franchisees through, among other things, product development and marketing programs initiated by PepsiCo for both its company-owned and franchised operations. On a limited basis, franchisees have also entered into leases of restaurant properties leased or owned by PepsiCo (see Note 10). Royalty revenues, initial fees and rental payments from franchisees, which are included in "Net Sales" in the Consolidated Statement of Income, aggregated \$344 million, \$326 million and \$294 million in 1992, 1991 and 1990, respectively. Franchise royalty revenues, which represent the majority of these amounts, are recognized on an accrual basis. PepsiCo also has franchise arrangements with beverage bottlers, which do not provide for royalty payments.

Classification of Restaurant Operating Expenses— Operating expenses incurred at the restaurant unit level consist

primarily of food and related packaging costs, labor associated with food preparation and customer service, and overhead expenses. For purposes of the Consolidated Statement of Income, food and packaging costs as well as all labor-related expenses are classified as "Cost of sales," and all other unit level expenses are classified as "Selling, general and administrative expenses."

Cash Equivalents— Cash equivalents represent funds temporarily invested (with original maturities not exceeding three months) as part of PepsiCo's management of day-to-day operating cash receipts and disbursements. All other investment portfolios, primarily held outside the U.S., are classified as short-term investments.

Net Income Per Share— Net income per share is computed by dividing net income by the weighted average number of shares and share equivalents outstanding during each year.

Research and Development Expenses— Research and development expenses, which are expensed as incurred, were \$102 million, \$99 million and \$101 million in 1992, 1991 and 1990, respectively.

Note 2 — Business Segments

Information regarding industry segments and geographic areas of operations is provided on pages 28 and 29.

Note 3 — Net Unusual Charges and Impact of Accounting Changes

Information regarding items affecting comparability, including restructuring actions in both 1992 and 1991 and the 1992 impact of the accounting changes, is provided on page 28. PepsiCo adopted the new Statements of Financial Accounting Standards, "Employers' Accounting for Postretirement Benefits Other Than Pensions" (SFAS 106) and "Accounting for Income Taxes" (SFAS 109), effective December 29, 1991. (See Notes 11 and 14.)

Note 4 — Supplemental Cash Flow Information

	1992	1991	1990
Cash Flow Data			
Interest paid	\$574.7	490.1	656.9
Income taxes paid	\$519.7	385.9	375.0
Schedule of Noncash Investing and Financing Activities			
Liabilities assumed in connection with acquisitions	\$383.8	70.9	126.7
Issuance of treasury stock and debt for acquisitions	\$189.5	162.7	105.1
Book value of net assets exchanged for investment in affiliate	\$ 86.7	—	—
Additions of capital leases	\$ 15.5	26.5	18.1
Issuance of treasury stock for compensation awards and conversion of debentures	\$ 2.6	14.7	13.5

Note 5 — Acquisitions and Investments in Affiliates

During 1992, PepsiCo completed a number of acquisitions and affiliate investments in all three industry segments aggregating \$1.4 billion, principally for cash. This activity included acquisitions of international (primarily Canada) and domestic franchised bottling operations and a number of domestic and international franchised restaurant operations, the buyout of PepsiCo's joint venture partner in a Canadian snack food business and an equity investment in a domestic mid-scale gourmet pizza business. In addition, PepsiCo exchanged certain previously consolidated snack food businesses in Europe with a net book value of \$87 million for a 60% equity interest in a new international snack food joint venture with General Mills, Inc. PepsiCo secured a controlling interest in the Gamesa Mexican cookie business through an exchange of certain non-cookie operations of Gamesa for its joint venture partner's interest.

Significant activity subsequent to December 26, 1992 included the buyout of PepsiCo's joint venture partners in a franchised bottling operation in Spain and the related acquisition of their fruit-flavored beverage business for \$213 million in cash.

During 1991, acquisition and affiliate investment activity aggregated \$804 million, principally for cash, led by acquisitions of domestic franchised restaurant operations.

During 1990, acquisition and affiliate investment activity aggregated \$736 million, principally for cash, and included an equity interest in the Gamesa cookie business as well as acquisitions of franchised bottling and restaurant operations.

The acquisitions have been accounted for by the purchase method; accordingly, their results are included in the Consolidated Financial Statements from their respective dates of acquisition. The aggregate impact of acquisitions was not material to PepsiCo's net sales, net income or net income per share; accordingly, no related pro forma information is provided.

Note 6 — Inventories

Inventories are valued at the lower of cost (computed on the average, first-in, first-out or last-in, first-out methods) or net realizable value. The cost of 44% of 1992 inventories and 49% of 1991 inventories was computed using the last-in, first-out (LIFO) method. The carrying value of total LIFO inventories was lower than the approximate current cost of those inventories by \$3.4 million at year-end 1992 and \$13.4 million at year-end 1991.

	1992	1991
Raw materials, supplies and in-process	\$388.1	\$345.3
Finished goods	380.7	316.2
	<u>\$768.8</u>	<u>\$661.5</u>

PepsiCo hedges certain raw material purchases through commodities futures contracts to reduce its exposure to market price fluctuations. Gains and losses on these contracts are included in the cost of the raw materials.

Note 7 — Property, Plant and Equipment

Property, plant and equipment are stated at cost. Depreciation is calculated principally on a straight-line basis over the estimated useful lives of the assets. Depreciation expense in 1992, 1991 and 1990 was \$923 million, \$800 million and \$686 million, respectively.

	1992	1991
Land	\$ 1,010.0	\$ 880.1
Buildings and improvements	4,269.5	3,707.1
Capital leases, primarily buildings	330.5	288.2
Machinery and equipment	6,485.2	5,626.3
	<u>12,095.2</u>	<u>10,501.7</u>
Accumulated depreciation	(4,653.2)	(3,907.0)
	<u>\$ 7,442.0</u>	<u>\$ 6,594.7</u>

Note 8 — Intangible Assets

Identifiable intangible assets arise from the allocation of purchase prices of businesses acquired, and consist principally of reacquired franchise rights and trademarks. Reacquired franchise rights relate to acquisitions of franchised bottling and restaurant operations, and the trademarks principally relate to acquisitions of international snack food operations and the 1986 acquisition of KFC. Values assigned to such identifiable intangibles were based on independent appraisals or internal estimates. Goodwill represents any residual purchase price after allocation to all identifiable net assets.

	1992	1991
Reacquired franchise rights	\$ 3,476.9	\$ 2,835.6
Trademarks	734.2	764.0
Other identifiable intangibles	159.6	193.3
Goodwill	2,588.3	2,139.5
	<u>\$ 6,959.0</u>	<u>\$ 5,932.4</u>

Intangible assets are amortized on a straight-line basis over appropriate periods generally ranging from 20 to 40 years. Accumulated amortization was \$1.0 billion and \$757 million at year-end 1992 and 1991, respectively.

Note 9 — Short-term Borrowings and Long-term Debt

	1992	1991
Short-term Borrowings		
Commercial paper (3.5% and 6.1% weighted average interest rate at year-end 1992 and 1991, respectively)	\$ 2,113.6	\$ 1,616.7
Current maturities of long-term debt issuances	1,052.6	619.2
Notes (A)	634.5	1,100.0
Other borrowings	406.1	342.3
Amount reclassified to long-term debt (B)	(3,500.0)	(3,450.0)
	<u>\$ 706.8</u>	<u>\$ 228.2</u>

	1992	1991
Long-term Debt		
Short-term borrowings, reclassified (B)	\$3,500.0	\$3,450.0
Notes due 1993 through 1999 (6.6% and 7.1% weighted average interest rate at year-end 1992 and 1991, respectively) (A)	4,209.1	3,381.0
Zero coupon notes, \$950 million due 1993-2012 (14.4% and 14.1% semi-annual weighted average yield to maturity at year-end 1992 and 1991, respectively)	300.4	365.6
Swiss franc perpetual Foreign Interest Payment bonds (C)	211.4	210.7
European Currency Units 7½% notes due 1992 (D)	—	134.2
Pound sterling 9½% notes due 1993 (D)	91.0	112.5
Swiss franc 5¼% bearer bonds due 1995 (D)	89.1	99.5
Swiss franc 7½% notes due 1994 (D)	69.1	74.1
Capital lease obligations (see Note 10)	242.0	213.3
Other, due 1993-2020 (6.8% and 7.7% weighted average interest rate at year-end 1992 and 1991, respectively)	305.3	384.5
	<u>9,017.4</u>	<u>8,425.4</u>
Less current maturities of long-term debt issuances	(1,052.6)	(619.2)
Total long-term debt.	<u>\$7,964.8</u>	<u>\$7,806.2</u>

Long-term debt is carried net of any related discount or premium and unamortized debt issuance costs. The debt agreements include various restrictions, none of which is presently significant to PepsiCo.

The annual maturities of long-term debt through 1997, excluding capital lease obligations and the reclassified short-term borrowings, are: 1993-\$1.03 billion, 1994-\$1.08 billion, 1995-\$803 million, 1996-\$835 million and 1997-\$312 million.

(A) PepsiCo has entered into interest rate swap agreements to effectively convert \$725 million and \$865 million of fixed interest rate debt issuances to variable rate debt with a weighted average interest rate of 3.4% and 4.6% at year-end 1992 and 1991, respectively, as well as effectively convert \$214 million and \$164 million of variable interest rate debt to fixed rate debt with an interest rate of 7.0% and 7.8% at year-end 1992 and 1991, respectively. The differential to be paid or received on interest rate swaps is accrued as interest rates change and is charged or credited to interest expense over the life of the agreements.

(B) At year-end 1992 and 1991, \$3.5 billion of short-term borrowings were classified as long-term, reflecting PepsiCo's intent and ability to refinance these borrowings on a long-term basis, through either long-term debt issuances or rollover of existing short-term borrowings. At year-end 1992 and 1991, PepsiCo had revolving credit agreements covering potential borrowings aggregating \$3.5 billion, with the current agreements expiring in 1995 through 1998. These unused credit facilities provide the ability to refinance short-term borrowings.

(C) The coupon rate of the Swiss franc 400 million perpetual Foreign Interest Payment bonds issued in 1986 is 7 1/2% through 1996. The interest payments are made in U.S. dollars at a fixed contractual exchange rate. The bonds have no stated maturity date. At the end of each 10-year period after the issuance of the bonds, PepsiCo and the bondholders each have the right to cause redemption of the bonds. If not redeemed, the coupon rate will be adjusted based on the prevailing yield of 10-year U.S. Treasury Securities. The principal of the bonds is denominated in Swiss francs. PepsiCo can, and intends to, limit the ultimate redemption amount to the U.S. dollar proceeds at issuance, which is the basis of the carrying value.

(D) PepsiCo has entered into currency exchange agreements to hedge its foreign currency exposure on these issues of non-U.S. dollar denominated debt. At year-end 1992, the carrying value of this debt aggregated \$249 million and the net receivable under related currency exchange agreements aggregated \$20 million, resulting in a net effective U.S. dollar liability of \$229 million with a weighted average fixed interest rate of 7.2%. At year-end 1991, the aggregate carrying values of the debt and the net receivable under related currency exchange agreements were \$420 million and \$77 million, respectively, resulting in a net effective U.S. dollar liability of \$343 million with a weighted average fixed interest rate of 7.3%. The carrying values of the currency exchange agreements are reflected in the Consolidated Balance Sheet as gross receivables and payables under the appropriate current and noncurrent asset and liability captions. Changes in the carrying value of a currency exchange agreement resulting from exchange rate movements are offset by changes in the carrying value of the related non-U.S. dollar denominated debt, as both values are based on current exchange rates.

In early 1992, PepsiCo effectively fixed the interest rates on \$1.1 billion of commercial paper borrowings through several interest rate swap agreements that terminate in February through May of 1993.

Except for these commercial paper swaps, the maturity dates of interest rate swaps and currency exchange agreements correspond with those of the related debt instruments. The counterparties to PepsiCo's interest rate swaps and currency exchange agreements consist of a diversified group of financial institutions. PepsiCo is exposed to credit risk to the extent of nonperformance by these counterparties; however, PepsiCo regularly monitors its positions and the credit ratings of these counterparties and considers the risk of default to be remote. Additionally, due to the frequency of interest payments and receipts, PepsiCo's credit risk related to interest rate swaps is not significant.

Note 10—Leases

PepsiCo has noncancelable commitments under both capital and operating leases, primarily for restaurant units. Certain of these units have been subleased to restaurant franchisees. Commitments on capital and operating leases expire at various dates through 2088 and, in many cases, provide for rent escalations and renewal options.

Most leases require payment of related occupancy costs which include property taxes, maintenance and insurance.

Future minimum commitments and sublease receivables under noncancelable leases are as follows:

	Commitments		Sublease Receivables	
	Capital	Operating	Direct Financing	Operating
1993	\$ 48.3	\$ 225.9	\$ 3.9	\$ 8.4
1994	46.5	197.9	3.7	7.9
1995	41.9	177.3	3.5	7.2
1996	35.9	158.0	3.3	6.4
1997	31.3	141.4	3.0	5.4
Later years . .	211.2	779.6	9.5	24.2
	<u>\$415.1</u>	<u>\$1,680.1</u>	<u>\$26.9</u>	<u>\$59.5</u>

At year-end 1992, the present value of minimum payments under capital leases was \$242 million, after deducting \$1 million for estimated executory costs (taxes, maintenance and insurance) and \$172 million representing imputed interest. The present value of minimum receivables under direct financing subleases was \$17 million after deducting \$10 million of unearned interest income.

Total rental expense and income and the contingent portions of these totals were as follows:

	1992	1991	1990
Total rental expense	\$379.0	323.2	272.7
Contingent portion of expense	\$ 27.5	22.3	21.4
Total rental income	\$ 14.7	13.0	10.5
Contingent portion of income .	\$ 4.5	4.8	4.9

Contingent rentals are based on sales by restaurants in excess of levels stipulated in the lease agreements.

Note 11 — Postretirement Benefits Other Than Pensions

PepsiCo provides postretirement health care and life insurance benefits (postretirement benefits) to eligible retired U.S. employees.

Employees who have 10 years of service and attain age 55 while in service with PepsiCo are eligible to participate in the postretirement benefit plans. The plans in effect through 1992 were largely non-contributory and were not funded.

Effective December 29, 1991, PepsiCo adopted Statement of Financial Accounting Standards No. 106 (SFAS 106), "Employers' Accounting for Postretirement Benefits Other Than Pensions." SFAS 106 requires PepsiCo to accrue the cost of postretirement benefits over the years employees provide services to the date of their full eligibility for such benefits. Previously, such costs were expensed as actual claims were incurred. PepsiCo elected to immediately recognize the transition obligation for future benefits to be paid related to past employee services, resulting in a noncash charge of \$575.3 million pretax (\$356.7 million after-tax or \$0.44 per share) that represents the cumulative effect of the change in accounting for years prior to 1992. The expense accrued in 1992 exceeded the amount under the previous accounting method by \$52.1 million pretax

(\$32.3 after-tax or \$0.04 per share). PepsiCo's cash flows will be unaffected by this accounting change because PepsiCo intends to continue its current practice of paying the costs of these postretirement benefits as the claims are incurred.

The postretirement benefit expense for 1992 included the following components:

Service cost of benefits earned	\$25.5
Interest cost on accumulated postretirement benefit obligation	50.8
Amortization of prior service cost	0.1
Postretirement benefit expense for 1992	<u>\$76.4</u>

Health care claims incurred and life insurance premiums paid totaled \$24.3 million, \$23.9 million and \$20.4 million in 1992, 1991 and 1990, respectively.

The 1992 postretirement benefit liability included the following components:

Actuarial present value of postretirement benefit obligations:	
Retirees	\$(251.2)
Fully eligible active plan participants	(132.5)
Other active plan participants	<u>(312.1)</u>
Accumulated postretirement benefit obligation	(695.8)
Unrecognized prior service cost	0.5
Unrecognized net loss	<u>58.0</u>
Postretirement benefit liability at year-end 1992	<u>\$(637.3)</u>
Included in:	
"Accrued compensation and benefits"	\$ (26.9)
"Other Liabilities"	<u>(610.4)</u>
	<u>\$(637.3)</u>

The discount rate used to determine the accumulated postretirement benefit obligation was 8.2%. The assumed health care cost trend rate used to measure the accumulated postretirement benefit obligation was 12.5% initially, declining gradually to 5.5% in 2005 and thereafter. A one-percentage-point increase in the assumed health care cost trend rate would have increased the 1992 postretirement benefit expense by \$13.3 million and would have increased the 1992 accumulated postretirement benefit obligation by \$119.4 million.

Effective in 1993 and 1994, certain features of the plans have been amended. For future retirees, PepsiCo will introduce retiree cost-sharing and will implement programs intended to stem rising costs. Also, PepsiCo has adopted a provision which limits its future obligation to absorb health care cost inflation. These amendments will result in an unrecognized gain of \$191 million, which will be amortized on a straight-line basis over the average remaining employee service period of 10 years as a reduction in postretirement benefit expense beginning in 1993. The projected 1993 postretirement benefit expense is approximately \$36 million, or about

\$40 million less than the 1992 expense. This anticipated net decline is primarily due to the plan amendments, reflecting reductions in service and interest costs as well as the amortization of the unrecognized gain.

Although not yet measured, obligations related to international postretirement benefit plans are not expected to be significant, since these benefits are generally provided through government-sponsored plans.

Note 12 — Pension Plans

PepsiCo sponsors noncontributory defined benefit pension plans covering substantially all full-time domestic employees as well as contributory and noncontributory defined benefit pension plans covering certain international employees. Benefits generally are based on years of service and compensation or stated amounts for each year of service. PepsiCo funds the domestic plans in amounts not less than minimum statutory funding requirements nor more than the maximum amount that can be deducted for federal income tax purposes. International plans are funded in amounts sufficient to comply with local statutory requirements. The plans' assets consist principally of equity securities, government and corporate debt securities and other fixed income obligations. PepsiCo Capital Stock accounted for approximately 20% and 19% of the total market value of the plans' assets for 1992 and 1991, respectively.

Full-time domestic employees not covered by these plans generally are covered by multiemployer plans as part of collective-bargaining agreements. Pension expense for these multiemployer plans was not significant in the aggregate.

For each of the years presented below, the information includes domestic plans and plans in the U.K. Because of 1992 acquisition activity, the information for 1992 also includes plans in Canada. Other international plans are not significant in the aggregate and therefore are not included in the following disclosures.

The net pension expense for company-sponsored plans (the Plans) included the following components:

	1992	1991	1990
Service cost of benefits earned	\$ 60.9	\$ 46.8	\$ 48.1
Interest cost on projected benefit obligation	82.9	69.2	63.3
Return on Plan assets:			
Actual	(97.3)	(224.1)	(27.0)
Deferred gain (loss)	(5.9)	134.2	(55.9)
	<u>(103.2)</u>	<u>(89.9)</u>	<u>(82.9)</u>
Amortization of net transition gain.	(19.0)	(19.0)	(19.0)
Pension expense	<u>\$ 21.6</u>	<u>\$ 7.1</u>	<u>\$ 9.5</u>

The following disclosures have been aggregated for all Plans, as the amounts for certain small plans with accumulated benefit obligations exceeding the assets were not significant. Reconciliations of

the funded status of the Plans to the prepaid pension liability included in the Consolidated Balance Sheet are as follows:

	1992	1991
Actuarial present value of benefit obligations:		
Vested benefits	\$ (853.4)	\$ (717.1)
Nonvested benefits	(80.7)	(96.8)
Accumulated benefit obligation	(934.1)	(813.9)
Effect of projected compensation increases	(166.3)	(133.0)
Projected benefit obligation	(1,100.4)	(946.9)
Plan assets at fair value	1,299.2	1,199.3
Plan assets in excess of projected benefit obligation	198.8	252.4
Unrecognized prior service cost	52.2	48.7
Unrecognized net gain	(57.9)	(103.4)
Unrecognized net transition gain	(110.1)	(129.1)
Prepaid pension liability	\$ 83.0	\$ 68.6
Included in:		
"Investments in Affiliates and Other Assets"	\$ 126.1	\$ 106.5
"Other current liabilities"	(24.5)	(22.6)
"Other Liabilities"	(18.6)	(15.3)
	<u>\$ 83.0</u>	<u>\$ 68.6</u>

The assumptions used in computing the information above were as follows:

	1992	1991	1990
Discount rate-pension expense	8.5%	9.5	9.1
Expected long-term rate of return on plan assets	10.1%	10.2	10.2
Discount rate-projected benefit obligation	8.3%	8.6	9.5
Future compensation growth rate	3.3%-7.0%	3.3-7.4	5.0-7.0

The discount rates and rates of return represent weighted averages, reflecting the combined assumptions for the domestic and international plans included as described above.

Note 13 — Postemployment Benefits Other Than to Retirees

In November of 1992, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 112 (SFAS 112), "Employers' Accounting for Postemployment Benefits." SFAS 112, which must be adopted by 1994, requires employers to accrue the cost of postemployment benefits (including salary continuation, severance and disability benefits, job training and counseling and continuation of benefits such as health care and life insurance coverage) to former or inactive employees. PepsiCo accrues some, but not all postemployment benefits. SFAS 112 requires immediate recognition of any obligation upon adoption. PepsiCo has not yet determined the impact of adoption.

Note 14 — Income Taxes

Effective December 29, 1991, PepsiCo adopted Statement of Financial Accounting Standards No. 109 (SFAS 109), "Accounting for Income Taxes." Under SFAS 109, the deferred income tax expense or benefit generally arises from changes in differences between financial reporting and tax bases of all assets and liabilities (with exceptions related to goodwill and investments in foreign businesses), and previously recorded deferred tax assets and liabilities are adjusted upon any changes in enacted tax rates. Differences between financial reporting and tax bases result most frequently from differences in timing of income and expense recognition. Another common source of bases differences is acquisition activity. Tax laws applicable to acquisitions can result in significant differences in values assigned to assets, particularly identifiable intangibles, that are not reflected in tax returns unless the assets are sold. Under the previous accounting rules, Accounting Principles Board Opinion No. 11 (APB 11), the deferred income tax expense or benefit generally arose from changes in bases differences related only to timing, and previously recorded deferred tax assets and liabilities were not adjusted to reflect changes in enacted tax rates.

PepsiCo elected to adopt SFAS 109 on a prospective basis as a change in accounting principle, resulting in a noncash charge of \$570.7 million (\$0.71 per share) that represents the cumulative effect of the change related to years prior to 1992. The cumulative effect principally represents the recording of deferred tax liabilities related to identifiable intangible assets that have no tax bases. These deferred tax liabilities would be paid only in the unlikely event the related intangible assets were sold in taxable transactions. The cumulative effect impact related to intangible assets was partially offset by a reduction of previously recorded net deferred tax liabilities, principally related to property, plant and equipment, to reflect the impact of lower U.S. tax rates provided by the Tax Reform Act of 1986.

The identifiable intangible assets driving the cumulative effect include acquired trademarks, such as Smiths and Walkers (U.K.), Gamesa (Mexico) and KFC, and reacquired franchise rights arising from nontaxable acquisitions of franchised bottling and restaurant operations. Under previous acquisition accounting rules, the fair values of these nondeductible reacquired franchise rights were reduced by the lost tax benefits in order to determine the financial reporting carrying values. These lost tax benefit amounts, which were determined on a discounted basis, effectively represented deferred tax liabilities. In accordance with SFAS 109, the carrying values of the reacquired franchise rights were "grossed-up" to present the lost tax benefit amounts as deferred tax liabilities, and the related cumulative effect represents an adjustment to increase the liabilities to nominal (i.e., undiscounted) values. With respect to trademark intangibles, amortization of these assets is not deductible in the applicable tax jurisdictions whether acquired in taxable or nontaxable transactions. Therefore, the trademark fair values, which did not include any tax benefits, represented the carrying values, and the cumulative effect related to trademarks represents the recognition of the full amount of related deferred tax liabilities.

Detail of the provision for income taxes on income from continuing operations before cumulative effect of accounting changes:

	1992	1991	1990
Current— Federal	\$413.0	\$315.5	\$301.5
Foreign	170.4	114.3	112.8
State	65.7	51.5	62.3
	<u>649.1</u>	<u>481.3</u>	<u>476.6</u>
Deferred—Federal	(18.8)	63.5	66.0
Foreign	(33.5)	25.3	12.7
State	0.3	9.4	7.9
	<u>(52.0)</u>	<u>98.2</u>	<u>86.6</u>
	<u>\$597.1</u>	<u>\$579.5</u>	<u>\$563.2</u>

The 1992 amounts presented above were calculated in accordance with SFAS 109, and the 1991 and 1990 amounts were calculated in accordance with APB 11. The impact of adopting SFAS 109 related to 1992 was a decrease in pretax income of \$20.7 million and a decrease in the deferred provision for income taxes of \$33.7 million, resulting in an increase of \$13.0 million (\$0.02 per share) in income before the cumulative effect. Assuming no changes in enacted tax rates or other unusual events, the impact of SFAS 109 on 1993 results is expected to approximate the 1992 net income benefit. The decrease in pretax income primarily reflects higher amortization expense related to reacquired franchise rights due to the required "gross-up" described above. The decrease in the deferred provision for income taxes related to SFAS 109 is due primarily to the recognition of tax benefits related to amortization of identifiable intangible assets with no tax basis. As these assets are decreased through amortization, the difference between the financial reporting and tax bases also decreases, resulting in a decrease in the related required deferred tax liabilities. In 1992, tax benefits of \$57.5 million related to exercises of stock options were allocated directly to capital.

The 1991 and 1990 deferred provisions arose principally from accelerated expense recognition for tax purposes as compared to financial reporting. The 1991 deferred provision included amounts related to depreciation of property, plant and equipment of \$56.2 million, amortization of intangibles of \$49.0 million and increased prefunding of employee benefits of \$23.3 million, partially offset by \$41.7 million related to restructuring charges. The 1990 deferred provision included amounts related to amortization of intangibles of \$46.0 million and depreciation of property, plant and equipment of \$40.6 million.

U.S. and foreign income from continuing operations before income taxes and cumulative effect of accounting changes:

	1992	1991	1990
U.S.	\$1,196.8	\$1,054.3	\$ 915.5
Foreign	702.0	605.4	738.3
	<u>\$1,898.8</u>	<u>\$1,659.7</u>	<u>\$1,653.8</u>

PepsiCo operates centralized concentrate manufacturing facilities in Puerto Rico and Ireland under long-term tax incentives. The foreign amount in the above table includes approximately 50% (consistent with the allocation for tax purposes) of the income from U.S. sales of concentrate manufactured in Puerto Rico.

Reconciliation of the U.S. federal statutory tax rate to PepsiCo's effective tax rate on income from continuing operations, based on the dollar impact of these major components on the provision for income taxes:

	1992	1991	1990
U.S. federal statutory tax rate	34.0%	34.0%	34.0%
State income tax, net of federal tax benefit	2.3	2.4	1.9
Effect of lower taxes on foreign income (including Puerto Rico and Ireland)	(5.0)	(2.7)	(4.4)
Nondeductible amortization of domestic goodwill (all years) and other intangible assets (1991 and 1990 only)	0.9	1.8	1.6
Tax basis difference related to joint venture stock offering	—	—	1.6
Other, net	(0.8)	(0.6)	(0.6)
Effective tax rate	<u>31.4%</u>	<u>34.9%</u>	<u>34.1%</u>

Detail of the 1992 deferred tax assets and liabilities:

	Deferred Tax Assets	Deferred Tax Liabilities
Current:		
Restructuring accruals	\$ 70.6	—
Other, net	<u>154.9</u>	<u>\$ 108.6</u>
Current deferred tax asset/liability	<u>\$ 225.5</u>	<u>\$ 108.6</u>
Noncurrent:		
Postretirement benefits	\$ 230.8	—
Net operating loss carryforwards	130.0	—
Deferred state income taxes	63.3	—
Identifiable intangible assets	—	\$1,292.2
Property, plant & equipment	—	526.8
Safe harbor leases	—	185.6
Zero coupon notes	—	96.0
Other, net	<u>246.9</u>	<u>124.6</u>
Noncurrent deferred tax asset/liability	<u>\$ 671.0</u>	<u>\$2,225.2</u>
Total deferred tax asset/liability before valuation allowance	\$ 896.5	\$2,333.8
Valuation allowance	<u>(181.3)</u>	—
Total deferred tax asset/liability	<u>\$ 715.2</u>	<u>\$2,333.8</u>
Net deferred tax liability		<u>\$1,618.6</u>
Included in:		
"Prepaid expenses, taxes and other current assets"	\$ (107.9)	
"Other current liabilities"	44.2	
"Deferred Income Taxes"	<u>1,682.3</u>	
		<u>\$1,618.6</u>

The valuation allowance rose by \$38.5 million in 1992, which offset higher deferred tax assets related to increased net operating loss carryforwards. The current and noncurrent net operating loss carryforwards, which totaled \$138.6 million at year-end 1992, included amounts related to several foreign and state jurisdictions with various expiration dates.

The deferred tax liability for Safe Harbor Leases (the Leases) is related to transactions, which PepsiCo entered into in 1981 and 1982, that decreased income taxes paid by PepsiCo over the initial years of the Leases and are now increasing taxes payable. Additional taxes paid in 1992 related to the Leases totaled \$5.2 million, and taxes payable are estimated to be \$35.2 million over the next five years. The provision for income taxes is not impacted by the Leases.

Deferred tax liabilities have not been recognized for bases differences related to investments in foreign subsidiaries and joint ventures. These differences, which consist primarily of unremitted earnings intended to be indefinitely reinvested, aggregated approximately \$2.4 billion at year-end 1992, exclusive of amounts that if remitted in the future would result in little or no tax under current tax laws and the Puerto Rico tax incentive grant. The comparable amount at year-end 1991 was \$1.8 billion. Determination of the amount of unrecognized deferred tax liabilities is not practicable.

Note 15 — Employee Incentive Plans

PepsiCo has established certain employee incentive plans under which stock options are granted. A stock option allows an employee to purchase a share of PepsiCo Capital Stock (Stock) in the future at the fair market value on the date of the grant.

Under the PepsiCo SharePower Stock Option Plan, approved by the Board of Directors and effective in 1989, essentially all employees other than executive officers, part-time and short-service employees may be granted stock options annually. The number of options granted is based on each employee's annual earnings. The options generally become exercisable ratably over five years from the grant date and must be exercised within 10 years of the grant date. SharePower options were granted to approximately 114,000 employees in 1992 and 107,000 employees in 1991.

The shareholder-approved 1987 Long-Term Incentive Plan (the Plan), which has provisions similar to plans in place in prior years, provides incentives to eligible senior and middle management employees. In addition to grants of stock options, which are generally exercisable between 1 and 15 years from the grant date, the Plan allows for grants of performance share units (PSUs) to eligible senior management employees. A PSU is equivalent in value to a share of Stock at the grant date and vests for payment four years from the grant date, contingent upon attainment of prescribed performance goals. PSUs are not directly granted, as certain stock options granted may be surrendered by employees for a specified number of PSUs within 60 days of the option grant date. During 1992, 502,740 stock options were surrendered for 167,580 PSUs. At year-end 1992 and 1991, there were 484,698 and 809,099 outstanding PSUs, respectively.

The Plan also provides for stock appreciation rights (SARs) and incentive stock units (ISUs). SARs were granted prior to 1991 and allowed eligible senior management employees to surrender an exercisable option for a payment representing the difference between the fair market value of Stock on the SAR exercise date and the option exercise price. Unexercised SARs were canceled in 1991 at no cost. Prior to 1989, eligible middle management employees were granted ISUs rather than stock options. ISUs vest for payment at specified dates over a six year period, and each ISU is equivalent in value to a share of Stock at those respective dates. At year-end 1992 and 1991, there were 127,565 and 162,591 outstanding ISUs, respectively.

Grants under the Plan are approved by the Compensation Committee of the Board of Directors (the Committee), which is composed of outside directors. Payment of awards other than stock options is made in cash and/or Stock as approved by the Committee, and amounts expensed for such awards were \$11 million, \$15 million and \$13 million in 1992, 1991 and 1990, respectively. Under the Plan, a maximum of 54 million shares of Stock can be purchased or paid pursuant to grants. There were 22 million and 32 million shares available for future grants at year-end 1992 and 1991, respectively.

1992 and 1991 activity for the stock option plans was as follows (in thousands):

	SharePower	Long-Term Incentive
Outstanding at		
December 29, 1990	17,227	26,874
Granted	9,249	2,195
Exercised	(325)	(950)
Surrendered for PSUs	—	(50)
Surrendered for SARs	—	(15)
Canceled	(2,350)	(220)
Outstanding at		
December 28, 1991	23,801	27,834
Granted	8,477	12,653
Exercised	(1,155)	(5,155)
Surrendered for PSUs	—	(503)
Canceled	(2,327)	(1,839)
Outstanding at		
December 26, 1992	28,796	32,990
Exercisable at		
December 26, 1992	8,164	10,659
Option prices per share:		
Exercised during 1992	\$17.58 to \$35.25	\$4.11 to \$29.88
Exercised during 1991	\$17.58 to \$29.25	\$4.11 to \$26.44
Outstanding at		
year-end 1992	\$17.58 to \$35.25	\$4.11 to \$38.75

Note 16 — Discontinued Operation Charge

The discontinued operation charge of \$14.0 million (\$13.7 after-tax or \$0.02 per share) represents additional amounts provided in 1990 for various pending lawsuits and claims relating to a business sold in a prior year. Substantially all of the charge is a capital loss for which PepsiCo has derived no tax benefit.

Note 17 — Joint Venture Stock Offering

In 1990, PepsiCo recorded an unusual gain of \$118.2 million (\$53.0 after-tax or \$0.07 per share) related to an initial public offering (IPO) to Japanese investors by PepsiCo's KFC joint venture in Japan (KFC-J). KFC-J's principal shareholders are Mitsubishi Corporation and PepsiCo. The IPO consisted of 6.5 million shares of stock in KFC-J. Each principal shareholder sold 2.25 million shares, and KFC-J sold an additional two million new shares. PepsiCo's sale of 2.25 million shares generated pretax cash proceeds of \$129.6 million.

The gain from the IPO consisted of a \$94.3 million gain (\$42.3 after-tax) from PepsiCo's sale of the 2.25 million shares and a \$23.9 million (\$10.7 after-tax) noncash equity gain from the sale of the two million new shares by KFC-J. As a result of these transactions, each principal shareholder's interest declined from 48.7% to 30.5%. The effective tax rate on the gain was 55.2%, reflecting the relatively low U.S. tax basis of PepsiCo's investment in KFC-J compared to its book value, which included nondeductible intangible assets.

Note 18 — Fair Value of Financial Instruments

PepsiCo's financial instruments include cash, cash equivalents, short-term investments, debt, interest rate swap agreements, currency exchange agreements and guarantees. Because of the short maturity of cash equivalents and investments which mature in less than one year, the carrying value approximates fair value. The fair value of investments which mature in more than one year is based upon market quotes. The fair value of debt issuances, interest rate swap agreements and currency exchange agreements is estimated using market quotes, valuation models and calculations based on market rates. The fair value of guarantees is based upon the projected cost to terminate or otherwise settle the obligations with the counterparties. At year-end 1992, the carrying value of all financial instruments approximated fair value.

Note 19 — Contingencies

PepsiCo is subject to various claims and contingencies related to lawsuits, taxes and other matters arising out of the normal course of business. Management believes that the ultimate liability, if any, arising from such claims or contingencies is not likely to have a material adverse effect on PepsiCo's annual results of operations or financial condition. At year-end 1992 and 1991, PepsiCo was contingently liable under guarantees aggregating \$200 million and \$86 million, respectively. The guarantees are primarily issued to support financial arrangements of certain restaurant and bottling franchisees and PepsiCo joint ventures. PepsiCo manages the risk associated with these guarantees by performing appropriate credit reviews in addition to retaining certain rights as a franchisor or joint venture partner.

Management's Responsibility for Financial Statements

To Our Shareholders:

Management is responsible for the reliability of the consolidated financial statements and related notes, which have been prepared in conformity with generally accepted accounting principles and include amounts based upon our estimates and judgments, as required. The financial statements have been audited and reported on by our independent auditors, KPMG Peat Marwick, who were given free access to all financial records and related data, including minutes of the meetings of the Board of Directors and Committees of the Board. We believe that the representations made to the independent auditors were valid and appropriate.

PepsiCo maintains a system of internal control over financial reporting designed to provide reasonable assurance as to the reliability of the financial statements. The system is supported by formal policies and procedures, including an active Code of Conduct program intended to ensure key employees adhere to the highest standards of personal and professional integrity. PepsiCo's internal audit function monitors and reports on the adequacy of and compliance with the internal control system, and appropriate actions are taken to address control deficiencies and other opportunities for improving the system as they are identified. The Audit Committee of the Board of Directors, which is composed solely of outside directors, provides oversight to the financial reporting process through periodic meetings with our independent auditors, internal auditors and management. Both our independent auditors and internal auditors have free access to the Audit Committee.

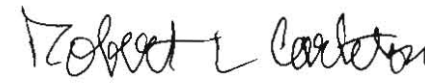
Although no cost effective internal control system will preclude all errors and irregularities, we believe our controls provide reasonable assurance that the financial statements are reliable. Late in 1992, the Committee of Sponsoring Organizations of the Treadway Commission issued a report, "Internal Control—Integrated Framework," which defines criteria for effective internal control over financial reporting. These criteria will be considered in assessing our internal control system.



Wayne Calloway
Chairman of the Board and Chief Executive Officer



Robert G. Dettmer
Executive Vice President and Chief Financial Officer



Robert L. Carleton
Senior Vice President and Controller

December 26, 1992

Report of KPMG Peat Marwick, Independent Auditors

Board of Directors and Shareholders
PepsiCo, Inc.

We have audited the accompanying consolidated balance sheet of PepsiCo, Inc. and subsidiaries as of December 26, 1992 and December 28, 1991, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the years in the three-year period ended December 26, 1992, appearing on pages 28, 29, 30, 32, 34 and 36 through 44. These consolidated financial statements are the responsibility of PepsiCo, Inc.'s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of PepsiCo, Inc. and subsidiaries as of December 26, 1992 and December 28, 1991, and the results of its operations and its cash flows for each of the years in the three-year period ended December 26, 1992, in conformity with generally accepted accounting principles.

As discussed in Notes 11 and 14 to the consolidated financial statements, PepsiCo, Inc. adopted the provisions of the Financial Accounting Standards Board's Statements of Financial Accounting Standards No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions" and No. 109, "Accounting for Income Taxes" in 1992.



KPMG Peat Marwick
New York, New York
February 2, 1993

Selected Financial Data

(in millions except per share and employee amounts, unaudited)

PepsiCo, Inc. and Subsidiaries

(in millions except per share and employee amounts, unaudited) PepsiCo, Inc. and Subsidiaries	Growth Rates			1992 ^(a)	1991 ^(c)
	Compounded		Annual		
	10-Year 1982-92	5-Year 1987-92	1-Year 1991-92		
Summary of Operations					
Net Sales	13.4%	14.8%	13.9%	\$21,970.0	19,292.2
Cost of sales and operating expenses				19,598.8	17,180.4
Interest expense				586.1	613.7
Interest income				(113.7)	(161.6)
				<u>20,071.2</u>	<u>17,632.5</u>
Income from continuing operations before income taxes and cumulative effect of accounting changes	15.9%	15.0%	14.4%	1,898.8	1,659.7
Provision for income taxes				597.1	579.5
Income from continuing operations before cumulative effect of accounting changes	20.4%	16.6%	20.5%	\$ 1,301.7	1,080.2
Cumulative effect of accounting changes				\$ (927.4) ^(b)	—
Net income	5.3%	(8.8)%	(65.3)%	\$ 374.3	1,080.2
Per Share Data					
Income from continuing operations before cumulative effect of accounting changes	21.0%	15.9%	19.3%	\$ 1.61	1.35
Cumulative effect of accounting changes				\$ (1.15) ^(b)	—
Net income	5.5%	(9.6)%	(65.9)%	\$ 0.46	1.35
Cash dividends declared	11.2%	18.0%	10.9%	\$ 0.510	0.460
Average shares and equivalents outstanding				806.7	802.5
Cash Flow Data^(g)					
Net cash provided by continuing operations	15.2%	15.2%	11.6%	\$ 2,711.6	2,430.3
Acquisitions and investments in affiliates for cash				\$ 1,209.7	640.9
Purchases of property, plant and equipment for cash	13.2%	15.0%	6.3%	\$ 1,549.6	1,457.8
Cash dividends paid	10.7%	18.1%	15.2%	\$ 395.5	343.2
Year-End Position					
Total assets	17.9%	18.4%	11.6%	\$20,951.2	18,775.1
Long-term debt	25.2%	25.3%	2.0%	\$ 7,964.8	7,806.2
Total debt ^(h)	23.7%	21.9%	7.9%	\$ 8,671.6	8,034.4
Shareholders' equity				\$ 5,355.7	5,545.4
Per share	13.1%	15.9%	(4.7)%	\$ 6.70	7.03
Market price per share	27.4%	30.3%	25.2%	\$ 42¼	33¾
Shares outstanding				798.8	789.1
Employees	10.8%	10.6%	10.1%	372,000	338,000
Statistics					
Return on average shareholders' equity ⁽ⁱ⁾				23.9%	20.7
Historical cost net debt ratio ^(j)				45%	47
Market net debt ratio ^(k)				17%	19

Certain amounts for 1991-1988 in the Summary of Operations above have been restated. (See Note 1.)

All share and per share amounts reflect three-for-one stock splits in 1990 and 1986.

(a) Includes \$193.5 in unusual charges (\$128.5 after-tax or \$0.16 per share). (See Note on page 28.)

(b) Represents cumulative effect of adopting SFAS 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions," and SFAS 109, "Accounting for Income Taxes." Prior years were not restated for SFAS 106 or SFAS 109. (See Notes 11 and 14.)

(c) Includes \$170.0 in unusual charges (\$119.8 after-tax or \$0.15 per share). (See Note on page 28.)

(d) Fiscal years 1988 and 1983 each consisted of 53 weeks. Normally, fiscal years consist of 52 weeks; however, because the fiscal year ends on the last Saturday in December, a week is added every 5 or 6 years.

(e) Includes a \$156.0 unusual charge (\$62.0 after-tax or \$0.07 per share) related to a program to sell several international bottling operations.

(f) Includes a \$79.4 unusual charge (\$79.4 after-tax or \$0.09 per share) related to a reduction in net assets of certain international bottling operations.

(g) Cash flows from other investing and financing activities, which are not presented, are an integral part of total cash flow activity.

(h) Total debt includes short-term borrowings and long-term debt, which for 1990 through 1987 included a nonrecourse obligation.

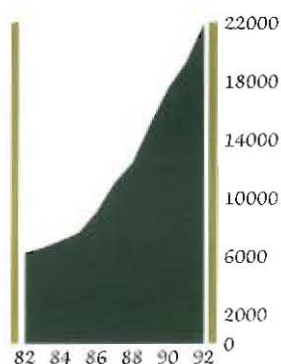
(i) The return on average shareholders' equity is calculated using income from continuing operations before cumulative effect of accounting changes.

(j) The historical cost net debt ratio represents net debt, which is total debt reduced by the pro forma remittance of investment portfolios held outside the U.S., as a percent of capital employed (net debt, other liabilities, deferred income taxes and shareholders' equity). For 1990 through 1987, total debt was also reduced by the nonrecourse obligation in the calculation of net debt.

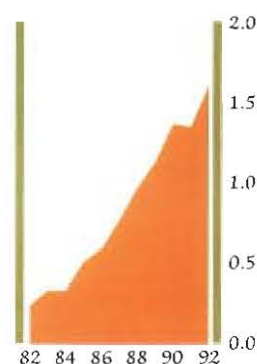
(k) The market net debt ratio represents net debt (see Note j) as a percent of net debt plus the market value of equity, based on the year-end stock price.

1990	1989	1988 ^(d)	1987	1986	1985	1984 ^(e)	1983 ^(d)	1982 ^(f)
17,515.5	15,049.2	12,381.4	11,018.1	9,017.1	7,584.5	7,058.6	6,568.6	6,232.4
15,355.2	13,276.6	11,039.6	9,890.5	8,187.9	6,802.4	6,479.3	5,995.7	5,684.7
686.0	607.9	342.4	294.6	261.4	195.2	204.9	175.0	163.5
(179.5)	(175.3)	(120.5)	(112.6)	(122.7)	(96.4)	(86.1)	(53.6)	(49.1)
15,861.7	13,709.2	11,261.5	10,072.5	8,326.6	6,901.2	6,598.1	6,117.1	5,799.1
1,653.8	1,340.0	1,119.9	945.6	690.5	683.3	460.5	451.5	433.3
563.2	438.6	357.7	340.5	226.7	256.7	180.5	169.5	229.7
1,090.6	901.4	762.2	605.1	463.8	426.6	280.0	282.0	203.6
—	—	—	—	—	—	—	—	—
1,076.9	901.4	762.2	594.8	457.8	543.7	212.5	284.1	224.3
1.37	1.13	0.97	0.77	0.59	0.51	0.33	0.33	0.24
1.35	1.13	0.97	0.76	0.58	0.65	0.25	0.33	0.27
0.383	0.320	0.267	0.223	0.209	0.195	0.185	0.180	0.176
798.7	796.0	790.4	789.3	786.5	842.1	862.4	859.3	854.1
2,110.0	1,885.9	1,894.5	1,334.5	1,212.2	817.3	981.5	670.2	661.5
630.6	3,296.6	1,415.5	371.5	1,679.9	160.0	—	—	130.3
1,180.1	943.8	725.8	770.5	858.5	770.3	555.8	503.4	447.4
293.9	241.9	199.0	172.0	160.4	161.1	154.6	151.3	142.5
17,143.4	15,126.7	11,135.3	9,022.7	8,027.1	5,889.3	4,876.9	4,446.3	4,052.2
5,899.6	6,076.5	2,656.0	2,579.2	2,632.6	1,162.0	668.1	797.8	843.2
7,526.1	6,942.8	4,107.0	3,225.1	2,865.3	1,506.1	948.9	1,073.9	1,033.5
4,904.2	3,891.1	3,161.0	2,508.6	2,059.1	1,837.7	1,853.4	1,794.2	1,650.5
6.22	4.92	4.01	3.21	2.64	2.33	2.19	2.13	1.96
25¾	21¾	13¾	11¼	8¾	7¾	4¾	4¼	3¾
788.4	791.1	788.4	781.2	781.0	789.4	845.2	842.0	840.4
308,000	266,000	235,000	225,000	214,000	150,000	150,000	154,000	133,000
24.8	25.6	26.9	26.5	23.8	23.1	15.4	16.4	12.7
47	51	37	35	40	24	11	23	30
22	24	20	18	23	12	7	16	20

Net Sales
(\$ In Millions)



Income Per Share From
Continuing Operations *
(In Dollars)



*Before cumulative effect of
accounting changes in 1992.

Quarterly Financial Data

(in millions except per share amounts, unaudited)

	First Quarter (12 Weeks)		Second Quarter (12 Weeks)		Third Quarter (12 Weeks)		Fourth Quarter (16 Weeks)		Full Year (52 Weeks)	
	1992	1991	1992	1991	1992	1991	1992	1991	1992	1991
Net sales	\$4,497.3	4,037.8	5,126.4	4,606.1	5,548.3	4,807.1	6,798.0	5,841.2	21,970.0	19,292.2
Gross profit	\$2,327.4	2,103.7	2,704.4	2,399.1	2,892.3	2,484.5	3,553.3	3,026.3	11,477.4	10,013.6
Income before income taxes and cumulative effect of accounting changes	\$ 349.3	312.5	563.1	486.4	616.0	431.0 ^(b)	370.4 ^(c)	429.8 ^(d)	1,898.8 ^(e)	1,659.7
Provision for income taxes	\$ 114.3	107.1	184.3	168.1	193.7	145.6	104.8	158.7	597.1	579.5
Income before cumulative effect of accounting changes	\$ 235.0	205.4	378.8	318.3	422.3	285.4	265.6	271.1	1,301.7	1,080.2
Cumulative effect of accounting changes:										
Postretirement Benefits	\$ (356.7) ^(a)	—	—	—	—	—	—	—	(356.7)	—
Income Taxes	\$ (570.7) ^(a)	—	—	—	—	—	—	—	(570.7)	—
Net income (loss)	\$ (692.4)	205.4	378.8	318.3	422.3	285.4	265.6	271.1	374.3	1,080.2
Income (charge) per share:										
Income before cumulative effect of accounting changes	\$ 0.29	0.26	0.47	0.39	0.53	0.36	0.32	0.34	1.61 ^(e)	1.35
Cumulative effect of accounting changes	\$ (1.15) ^(a)	—	—	—	—	—	—	—	(1.15)	—
Net income (loss) per share	\$ (0.86)	0.26	0.47	0.39	0.53	0.36 ^(b)	0.32 ^(c)	0.34 ^(d)	0.46 ^(e)	1.35

The amounts for the first three quarters of 1992 and for all quarters of 1991 have been restated to report under the equity method of accounting certain previously consolidated international snack food businesses contributed to the new Snack Ventures Europe (SVE) joint venture with General Mills, Inc. in late 1992. The restatement had no effect on net income. (See Note 1.)

- (a) Represents cumulative effect related to years prior to 1992 of adopting SFAS 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions," and SFAS 109, "Accounting for Income Taxes." (See Notes 11 and 14.)
- (b) Includes unusual charges totaling \$100.4 (\$62.4 after-tax or \$0.08 per share) consisting of a \$91.4 restructuring charge at domestic snack foods and a KFC charge of \$9.0 related to a delay in the U.S. roll-out of a new product.
- (c) Includes unusual charges totaling \$193.5 (\$128.5 after-tax or \$0.16 per share) consisting of restructuring charges of \$115.4 at domestic beverages, \$29.6 at international beverages, \$40.3 at international snack foods and \$8.2 related to SVE.
- (d) Includes unusual charges totaling \$69.6 (\$57.4 after-tax or \$0.07 per share) consisting of restructuring charges of \$34.0 at KFC and \$35.6 at international snack foods.
- (e) Includes the current year effect of adopting SFAS 106, which decreased full-year income before income taxes and cumulative effect of accounting changes by \$52.1 (\$32.3 after-tax or \$0.04 per share), and SFAS 109, which decreased full-year income before income taxes and cumulative effect of accounting changes by \$20.7 and the provision for income taxes by \$33.7, resulting in an increase in income before cumulative effect of accounting changes of \$13.0 (\$0.02 per share).

Capital Stock Information

Stock Trading Symbol

PEP

Stock Exchange Listings

The New York Stock Exchange is the principal market for PepsiCo Capital Stock, which is also listed on the Midwest, Basel, Geneva, Zurich, Amsterdam and Tokyo Stock Exchanges.

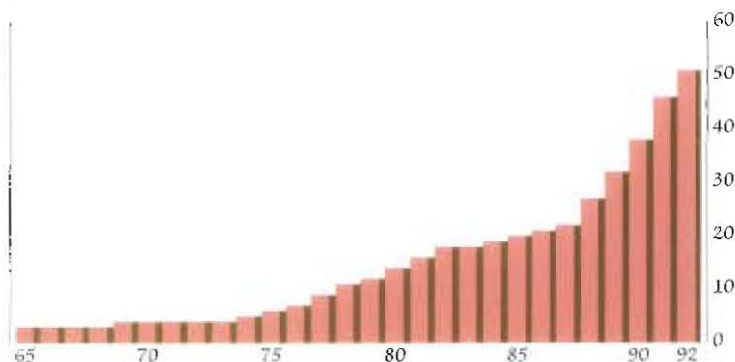
Shareholders

At year-end 1992, there were approximately 143,000 shareholders of record.

Dividend Policy

Cash dividends are declared quarterly. Quarterly cash dividends have been paid since PepsiCo was formed in 1965, and dividends have increased for 21 consecutive years.

Dividends Declared Per Share
(In Cents)



Consistent with PepsiCo's current payout target of approximately one-third of the prior year's income, the 1992 dividends declared represented 38% of 1991 income from continuing operations.

Dividends Declared Per Share (in cents)

Quarter	1992	1991
1	12	10
2	13	12
3	13	12
4	13	12
Total	51	46

Stock Prices

The high, low and closing prices for a share of PepsiCo Capital Stock on the New York Stock Exchange, as reported by The Dow Jones News/Retrieval Service, for each fiscal quarter of 1992 and 1991 were as follows (in dollars):

1992	High	Low	Close
Fourth Quarter	43	36 $\frac{1}{8}$	42 $\frac{1}{4}$
Third Quarter	38 $\frac{7}{8}$	34 $\frac{1}{8}$	37 $\frac{5}{8}$
Second Quarter	38 $\frac{1}{4}$	32 $\frac{1}{4}$	36
First Quarter	35 $\frac{3}{4}$	30 $\frac{1}{2}$	32 $\frac{7}{8}$
1991			
Fourth Quarter	33 $\frac{7}{8}$	27	33 $\frac{3}{4}$
Third Quarter	33 $\frac{1}{2}$	27 $\frac{3}{4}$	29 $\frac{1}{8}$
Second Quarter	35 $\frac{5}{8}$	29 $\frac{1}{2}$	30 $\frac{7}{8}$
First Quarter	35 $\frac{1}{8}$	23 $\frac{1}{2}$	32 $\frac{7}{8}$

Stock Performance

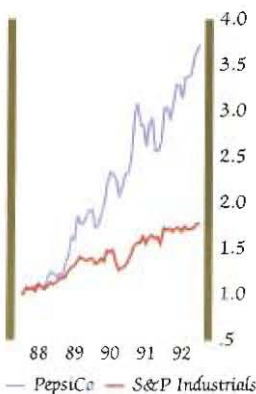
PepsiCo was formed through the 1965 merger of Pepsi-Cola Company and Frito-Lay, Inc. A \$1,000 investment in our stock made in 1965 was worth approximately \$64,000 on December 26, 1992, assuming the reinvestment of dividends. This performance represents a compounded annual growth rate of 16%. The chart on the back cover shows growth for the years 1982 to 1992, when the total return to shareholders grew at a compounded annual rate of 30%.

As the chart showing the comparison of monthly market price performance illustrates, the return on PepsiCo Capital Stock compares favorably with the performance of the Standard & Poor's Industrials over the past five years.

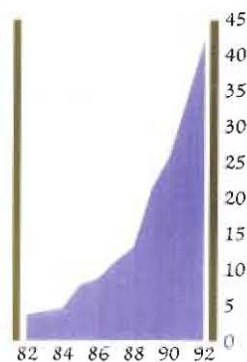
The chart showing year-end market price of stock represents the closing price for a share of PepsiCo Capital Stock on the New York Stock Exchange, as reported by the Dow Jones News/Retrieval Service for the end of each fiscal year 1982-1992.

Past performance is not necessarily indicative of future returns on investments in PepsiCo Capital Stock.

Comparison of Monthly
Market Price Performance
(Closing Price Indexed at 12/31/87)



Year-End Market
Price Of Stock
(In Dollars)



PepsiCo Directors



Arnold R. Weber, 63, President of Northwestern University. Elected 1978. Chairman: Audit Committee. Dr. Weber has held various government positions including Executive Director of the Cost of Living Council and Associate Director of the Office of Management and Budget. Director: Aon Corp., Burlington Northern, Inc., Household Receivables Funding Corporation, Inland Steel Company, The Tribune Co.

Wayne Calloway, 57, Chairman of the Board and Chief Executive Officer, PepsiCo, Inc. Elected 1983. Mr. Calloway joined PepsiCo in 1967. He became President and Chief Operating Officer of Frito-Lay, Inc. in 1976 and Chairman of the Board and Chief Executive Officer of Frito-Lay in 1978. Mr. Calloway became Executive Vice President and Chief Financial Officer of PepsiCo in 1983 and President and Chief Operating Officer in 1985. He assumed his current position in 1986. Director: Citicorp, General Electric Company, Exxon Corporation.

Robert E. Allen, 58, Chairman of the Board and Chief Executive Officer, American Telephone and Telegraph Co. Elected 1990. Mr. Allen began his career at AT&T in 1957. He was elected President and Chief Operating Officer in 1986 and assumed his present responsibilities in 1988. Director: Bristol-Myers Squibb Company.



Andrall E. Pearson, 67, Professor, Harvard Business School. Elected 1970. Mr. Pearson was PepsiCo's President and Chief Operating Officer from 1971 through 1984. Director: Kendall Company, May Department Stores Company, Primerica Corp., Lexmark International, Inc. Director and Limited Partner: Clayton & Dubilier, Inc.

Roger B. Smith, 67, Retired Chairman and Chief Executive Officer, General Motors Corp. Elected 1989. Mr. Smith joined General Motors Corp. in 1949 and became its Chairman and Chief Executive Officer in 1981. Director: Citicorp, General Motors, International Paper Co., Johnson & Johnson.



P. Roy Vagelos, 63, Chairman of the Board and Chief Executive Officer, Merck & Co., Inc. Elected 1992. Dr. Vagelos joined Merck in 1975 and became President and Chief Executive Officer in 1985. He became a director in 1984 and Chairman in 1986. Director: The Prudential Insurance Company of America, Inc.

Roger A. Enrico, 48, Chairman and Chief Executive Officer of PepsiCo Worldwide Foods. Elected 1987. Mr. Enrico joined PepsiCo in 1971. He became Executive Vice President of Pepsi-Cola USA in 1982 and President and Chief Executive Officer of that division in 1983. He became President and Chief Executive Officer of PepsiCo Worldwide Beverages in 1986, Chairman and Chief Executive Officer of Frito-Lay, Inc. in 1991 and assumed his present position in 1992. Director: Dayton Hudson Corporation.

Sharon Percy Rockefeller, 48, President and Chief Executive Officer, WETA public stations in Washington, D.C. Elected 1986. Mrs. Rockefeller was a member of the Board of Directors of WETA from 1985 to 1989 and assumed her present position in 1989. She was a member of the Board of Directors of the Corporation for Public Broadcasting until 1992 and has also been a member of the Democratic National Committee. Director: Public Broadcasting Service, Washington, D.C.



John J. Murphy, 61, Chairman and Chief Executive Officer of Dresser Industries. Elected 1984. Mr. Murphy joined Dresser in 1952 and was elected Chairman and Chief Executive Officer in 1983. Director: NationsBank Corporation, Kerr-McGee Corporation.

John F. Akers, 58, Chairman of the Board and Chief Executive Officer of International Business Machines Corporation. Elected 1991. Mr. Akers joined IBM in 1960, has been Chairman and Chief Executive Officer since 1986. Director: The New York Times Company.

Robert H. Stewart, III, 67, Vice Chairman of Bank One, Texas, N.A. Elected 1965. Chairman: Compensation Committee. Mr. Stewart became Chairman of the Board of First RepublicBank Corporation in 1987, a position he held until joining LaSalle Energy Corp., where he was Vice Chairman of the Board from 1987 until its sale in 1989. Mr. Stewart then became Vice Chairman of Team Bank, assuming his present position in 1992 upon the acquisition of Team Bancshares Inc. by BANC ONE CORPORATION. Director: ARCO Chemical Co.

Principal Divisions and Corporate Officers

(Listings for Division Presidents and Executive Officers include age and years of PepsiCo experience as of March 31, 1993.)

Executive Offices

Purchase, New York 10577
(914) 253-2000

Divisions

Pepsi-Cola North America
1 Pepsi Way
Somers, New York 10589
(914) 767-6000
Craig E. Weatherup, President and
Chief Executive Officer, 47, 18 years

Pepsi-Cola International
1 Pepsi Way
Somers, New York 10589
(914) 767-6000
Christopher A. Sinclair, President and
Chief Executive Officer, 42, 10 years

PepsiCo Worldwide Foods
7701 Legacy Drive
Plano, Texas 75024
(214) 334-7000
Roger A. Enrico, Chairman and
Chief Executive Officer, 48, 21 years

Frito-Lay, Inc.
7701 Legacy Drive
Plano, Texas 75024
(214) 334-7000
Steven S. Reinemund, President and
Chief Executive Officer, 44, 8 years

PepsiCo Foods International
7701 Legacy Drive
Plano, Texas 75024
(214) 334-7000
Rogelio M. Rebolledo, President and
Chief Operating Officer, 48, 16 years

Pizza Hut Worldwide
9111 East Douglas
Wichita, Kansas 67207
(316) 681-9000
Allan S. Huston, President and
Chief Executive Officer, 49, 21 years

Taco Bell Worldwide
17901 Von Karman
Irvine, California 92714
(714) 863-4500
John E. Martin, President and
Chief Executive Officer, 47, 9 years

Kentucky Fried Chicken Corporation
1441 Gardiner Lane
Louisville, Kentucky 40213
(502) 456-8300
John M. Cranor III, President and
Chief Executive Officer, 46, 15 years

PepsiCo Food Systems
Two Galleria Tower
13455 Noel Road, Suite 2100
Dallas, Texas 75240
(214) 338-7280
Robert C. Hunter, President, 44, 18 years

Co-founder of PepsiCo, Inc.

Donald M. Kendall
Chairman of the PepsiCo Foundation,
45 years of PepsiCo experience

Officers

Wayne Calloway
Chairman of the Board and
Chief Executive Officer, 57, 26 years

Robert G. Dettmer
Executive Vice President and
Chief Financial Officer, 61, 20 years

Dick W. Boyce
Senior Vice President,
Strategic Planning, 38, under 1 year

Robert L. Carleton
Senior Vice President and
Controller, 52, 18 years

Donovan R. Christopherson
Senior Vice President, Restaurant
Development, 60, 12 years

J. Roger King
Senior Vice President,
Personnel, 52, 23 years

Edward V. Lahey, Jr.
Senior Vice President, General
Counsel and Secretary, 54, 27 years

Joseph F. McCann
Senior Vice President,
Public Affairs, 52, 20 years

Leonard Schutzman
Senior Vice President, 46, 16 years

Kenneth T. Stevens
Senior Vice President and
Treasurer, 41, 2 years

Robert O. Barber
Vice President and
Assistant Controller, 43, 15 years

John S. Bronson
Vice President, Compensation
and Benefits, 45, 13 years

John T. Cahill
Vice President, Corporate Finance and
Assistant Treasurer, 35, 3 years

Gerard W. Casey
Vice President and
Associate General Counsel, 50, 23 years

Douglas M. Cram
Vice President and
Assistant General Counsel, 50, 19 years

Allan B. Deering
Vice President, Management Information
Services, 58, 12 years

Lawrence F. Dickie
Vice President, Associate General Counsel
and Assistant Secretary, 50, 16 years

Robert S. Enright
Vice President, Taxes, 46, 4 years (Deceased)

John W. Ewing
Vice President,
Human Resources, 63, 39 years

William A. Finkelstein
Vice President and
Intellectual Property Counsel, 45, 19 years

John J. Flaherty
Vice President and
General Auditor, 53, 11 years

Richard A. Goodman
Vice President, Corporate Strategic
Planning, International, 44, 1 year

Ronald E. Harrison
Vice President,
Community Affairs, 57, 28 years

David D. Hatch
Vice President, Organization and
Management Development, 39, 8 years

Joseph J. Joyce
Vice President and
Assistant General Counsel, 49, 21 years

Tim F. Kahn
Vice President, Corporate Strategic
Planning, Restaurants, 39, 12 years

Jay M. Kushner
Vice President, International
Tax Planning, 36, 8 years

Fred S. McRobie
Vice President and
Assistant General Counsel, 51, 18 years

Ronnie Miller Hasday
Vice President,
Corporate Personnel, 44, 17 years

Margaret D. Moore
Vice President, Investor Relations,
45, 19 years

Claudia E. Morf
Vice President, Corporate Finance and
Assistant Treasurer, 41, 11 years

David E. Scherb
Vice President,
Compensation, 44, 5 years

Peter R. Thompson
Vice President, Corporate Finance and
Assistant Treasurer, 43, 15 years

David L. Wright
Vice President, Government Affairs,
44, 8 years

Shareholder Information

Inquiries Regarding Your Stock Holdings

Registered Shareholders (Shares are held by you in your name):

Questions on your statement, dividend payments, address changes or other matters should be directed to:

Chemical Bank	or	Manager, Shareholder Relations
Security Holder Relations		PepsiCo, Inc.
P.O. Box 24935		Purchase, New York 10577
Church Street Station		Telephone: (914) 253-3055
New York, New York 10249		
Telephone: (212) 613-7147		
(800) 647-4273		

In all correspondence or phone inquiries, please mention PepsiCo, your name **as printed on your stock certificate**, your social security number, your address and telephone number.

Beneficial Shareholders (Shares held by your broker in the name of the brokerage house):

Questions should be directed to your broker on all administrative matters.

SharePower Participants: Employee questions regarding your account, outstanding options or shares received through option exercises should be addressed to:

Merrill Lynch/SharePower
Stock Option Plan Services
P.O. Box 30466
New Brunswick, New Jersey 08989
Telephone: (800) 637-6713 (U.S., Puerto Rico and Canada)
(908) 469-8877 (all other locations)

In all correspondence, please provide your account number (for U.S. citizens, this is your social security number), your address, your telephone number and mention PepsiCo SharePower. For telephone inquiries, please have a copy of your most recent statement available.

Employee Benefit Plan Participants:

Capital Stock Purchase Plan	(800) MSHARE
SaveUp (formerly 401-K or Long-term Savings)	(800) 227-4015 (617) 472-3127 (outside U.S.)
ESOP	(914) 253-3737

Please have a copy of your most recent statement available when calling with inquiries.

Dividend Reinvestment Plan

By enrolling in PepsiCo's Dividend Reinvestment Plan, which offers a stock certificate safekeeping feature, registered shareholders may

increase their investment in our stock through the reinvestment of dividends and voluntary cash investments up to \$60,000 per year. A brochure explaining this convenient plan, for which PepsiCo pays all administrative costs, is available from our transfer agent:

Chemical Bank
Dividend Reinvestment Department
P.O. Box 24850, Church Street Station
New York, New York 10242
Telephone: (212) 613-7147
(800) 647-4273

Financial Information

Shareholders with questions regarding PepsiCo's performance are invited to contact:

Margaret D. Moore
Vice President, Investor Relations
PepsiCo, Inc.
Purchase, New York 10577
Telephone: (914) 253-3035

Shareholders who wish to receive, free of charge, copies of PepsiCo's Form 10-K and 10-Q reports filed with the Securities and Exchange Commission, quarterly earnings releases or mid-year update, contact PepsiCo's Manager of Shareholder Relations.

Independent Auditors

KPMG Peat Marwick
345 Park Avenue
New York, New York 10154

Annual Shareholders' Meeting

The Annual Meeting of Shareholders will be held at PepsiCo World Headquarters on Anderson Hill Road, Purchase, New York at 10 a.m. (EDT), Wednesday, May 5, 1993. Proxies for the meeting will be solicited by an independent proxy solicitor. This Annual Report is not part of the proxy solicitation.

PepsiCo's Annual Report contains many of the valuable trademarks owned and used by PepsiCo and its subsidiaries and affiliates in the U.S. and internationally to distinguish products and services of outstanding quality.

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Typography: Grid Typographic Services
Photography: Stephen Wilkes
Major Product Photography: Ben Rosenthal
Chairman's and Directors' Photography: Alen MacWeeney

Our thanks to the talented and flexible dancers from the Martha Graham Dance Company and the School of American Ballet who are featured in this report.

Choreographer: Pascal Rioult
Costumes: Russell Vogler

 Printed on recycled paper.

Things we're not flexible about...

Values. Here are three of our most important:

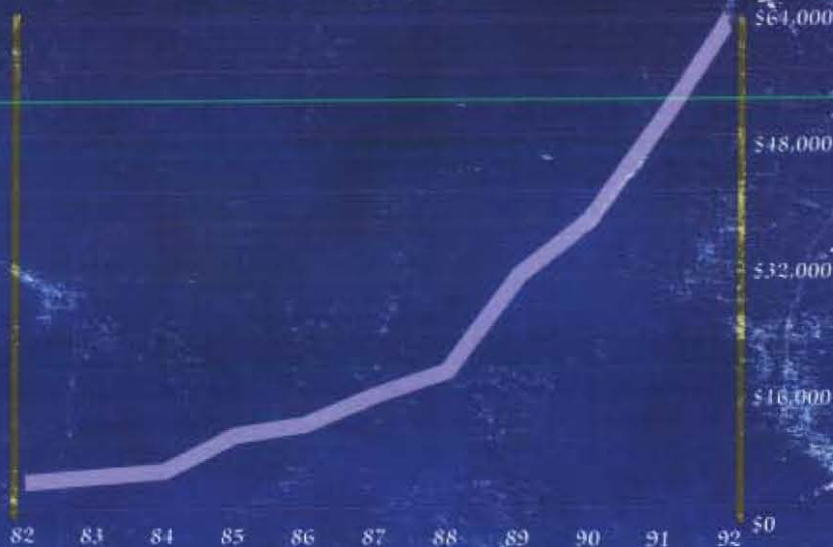
Results — PepsiCo people are recognized and rewarded for achieving results. To create shareholder value, we must perform brilliantly on millions of consumer transactions each day.

Integrity — At PepsiCo, integrity means more than corporate honesty. It takes openness and trust to run a huge flexible corporation. Warmth and good humor help, too.

People — In the end, it's always the special efforts of people that make great things happen. We value our employees, customers, business partners, franchisees, suppliers and shareholders. We know without them there would be no PepsiCo.



*Soaring returns
to shareholders.*



PepsiCo's total return to shareholders — stock appreciation plus dividends reinvested — grew at a compounded annual rate of 30% over the decade. Since PepsiCo was founded, that rate has been 16%. That means a \$1,000 investment made in June 1965 was worth \$64,000 at the end of 1992.